

Session : 2019-20
M.COM.- FIRST YEAR
(II SEMESTER)

CORPORATE FINANCIAL ACCOUNTING
(I-2002)

**UNIT – I : AMALGAMATION &
RECONSTRUCTION**

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LEARNING OBJECTIVES

After you have gone through this unit, you should be able to describe –

- Meaning of Amalgamation & Absorption;
- Types of Amalgamation & Reconstruction;
- Difference between '**Amalgamation in the nature of Merger**' and '**Amalgamation in the nature of Purchase**';
- Purchase Consideration and its methods;
- Accounting treatment in the books of Transferor Company (Vendor) and Transferee Company (Buyer);
- Difference between '**External Reconstruction**' and '**Amalgamation**';
- Accounting for External Reconstruction

(IV) REDUCTION OF SHARE CAPITAL

- *Normally*, internal reconstruction involves reduction of share capital.
- It **becomes necessary** under following circumstances –
 1. Where share capital is inflated.
 2. Company is incapable to repay its debts.
 3. Assets do not present true book values.
 4. The financial position of the company does not show a true and fair view.

LEGAL REQUIREMENTS

It can be carried out by a company -

- (i) **only when** it is **authorised by its Articles of Association** and
- (ii) a **special resolution is passed** to that effect.
- (iii) Followed by, **confirmation of the Tribunal**.

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(IV) REDUCTION OF SHARE CAPITAL

When it involves **variation of rights of different classes of shares** then following legal provisions are of worth consideration which are to be followed –

1. The consent of holders of **at least three-fourth (75%)** of the shares of the class concerned must be obtained at a **separate meeting** of the affected class of shareholders by means of a **resolution** or **in writing**.
2. If unsatisfied, holders of **at least one-tenth (10%)** of the issued shares of the affected class of shareholders may apply to the Tribunal for the **cancellation of such variation, within 21 days** after securing such consent.
3. In such case, **variation will not have effect unless** it is confirmed by the Tribunal.

FORMS OF CAPITAL REDUCTION

1. Extinguishing or Reducing the liability in respect of unpaid amount on shares held by shareholders : In such case, **only partly paid shares** (say, 100,000 shares) become fully paid by reducing the face value (say, Rs.10) of the shares to the level of their paid-up value (say, Rs.7).

ACCOUNTING TREATMENT **(OPTIONAL)**

DATE	PARTICULARS	L. F.	DEBIT	CREDIT
	Share Capital (Partly paid-up) A/c Dr.		7,00,000	
	To Share Capital (Fully paid-up) A/c			7,00,000

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FORMS OF CAPITAL REDUCTION

2. Paying off the surplus or excess paid-up capital:

▶ Surplus or excess paid-up capital means that paid-up capital which is **in excess of the needs** of the company.

▶ If the co. is in **arrears in the repayment** of –

- (i) any deposits **accepted by it** (either before or after the commencement of this Act) *or*
- (ii) the **interest payable on them**,

then **no such reduction of capital can be made by the company.**

WAYS / TYPES OF PAYING OFF THE SURPLUS PAID-UP CAPITAL

- (A) WITHOUT REDUCING THE FACE VALUE OF SHARES
- (B) BY REDUCING THE FACE VALUE OF SHARES
- (C) CANCELLING THE PAID-UP CAPITAL

(A) WITHOUT REDUCING THE FACE VALUE OF SHARES

Accounting Treatment

DATE	PARTICULARS	L. F.	DEBIT	CREDIT
	Share Capital A/c	Dr.	3,00,000	
	To Sundry Shareholders A/c (With the amount to be paid off)			3,00,000
	Sundry Shareholders A/c	Dr.	3,00,000	
	To Bank A/c (With the amount paid off)			3,00,000

Note: In this case, the company shall have the **right to call up in future** the amount paid off (as mentioned above) on the shares.

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(B) BY REDUCING THE FACE VALUE OF SHARES

Accounting Treatment

D A T E	PARTICULARS	L · F ·	DEBIT	CREDIT
	Share Capital [Old Face Value (Rs.10)] A/c Dr. (With total amount of old capital)		10,00,000	
	To Share Capital [New Face Value (Rs.7)] A/c (With the amount to be kept as new capital)			7,00,000
	To Sundry Shareholders A/c (With the amount to be paid off)			3,00,000
	Sundry Shareholders A/c Dr.		3,00,000	
	To Bank A/c (With the amount paid off)			3,00,000

Note: In this case, the company shall **NOT** have any **right to call up in future** the amount paid off (as mentioned above) on the shares.

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(C) CANCELLING THE PAID-UP CAPITAL

For this purpose –

- (1) a meeting of **different classes of shareholders** is called up and
- (2) they are made to agree **to sacrifice their claims to certain extent** and
- (3) their sacrifices are utilised to –
 - (i) write-off the accumulated losses and fictitious assets and
 - (ii) to adjust the over-valuation of assets.
- (4) For this purpose, a new account, called **Capital Reduction Account** (or **Reconstruction Account** or **Reorganization Account**)* is opened to which sacrifices of shareholders are **credited** and through which **accumulated losses and fictitious assets are written off and over-valuations of assets adjusted.**

(C) CANCELLING THE PAID-UP CAPITAL

NOTES: 1. The preparation of **Reconstruction Account*** is preferred when –

- **debenture-holders and creditors** also have to accept some reduction in their claims in addition to the shareholders and/or
- where there is **appreciation in the value** of *any asset*.

2. The amount credited to the **Capital Reduction Account** will be utilized for writing off

- (i) accumulated losses,
- (ii) fictitious assets and
- (iii) over-valuation of assets and
- (iv) the balance, if any, of this account will be transferred to **Capital reserve Account**.

(C) CANCELLING THE PAID-UP CAPITAL

Accounting Treatment

CASE : I

If **only paid-up value** of the shares is **reduced** and the **nominal value** of the share **remains the same** : For example, if the shareholders (possessing 1,00,000 shares) agree to reduce the paid-up value of Rs.10 **fully paid** share to a share of Rs. 2 paid-up and thereby sacrifice Rs.8 per share.

DATE	PARTICULARS	L.F.	DEBIT	CREDIT
	Share Capital A/c Dr. (With total amount of reduction, i.e. Rs.8 per share)		8,00,000	
	To Capital Reduction A/c			8,00,000

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(C) CANCELLING THE PAID-UP CAPITAL

Accounting Treatment

CASE : II

If both, **paid-up value** and the **nominal value** of the share, are **reduced**: For example, if the shareholders (possessing 10,000 shares) agree to take Rs.10 **fully paid** shares **in exchange of** Rs. 50 **fully paid** share and thereby sacrifice Rs.40 per share.

DATE	PARTICULARS	L.F.	DEBIT	CREDIT
	Share Capital A/c (Rs.50 share) Dr.		5,00,000	
	To Share Capital A/c (Rs.10 share) To Capital Reduction A/c (Rs.40 per sh.)			1,00,000 4,00,000

Note: After permitting the scheme of capital reduction, the Tribunal **may order** the use of words **“and reduced”** after the **name of the company** for such period as it deems fit.

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REFERENCE BOOKS

1. **Warren/Reeve/Duchac's Corporate Financial Accounting 13E and CengageNOW™v2! Market-leading Corporate Financial Accounting (ISBN-13: 978-1285868783 ISBN-10: 1285868781)**
2. **International Journal of Accounting and Finance (ISSN online:1752-8232 ISSN print: 1752-8224)**
3. **Shukla S.M. & Gupta K.L., Corporate Financial Accounting (Sahitya Bhawan Publications)**
4. **Gupta K.G., Corporate Financial Accounting (K.G.Publications)**
5. **Gupta R.L. Advanced Financial Accounting, (S.Chand & Co.)**

REFERENCE BOOKS

6. Maheshwari S.N., Advanced Accounting – Vol.II, (Vikas Publishing House)
7. Shukla M.C. & T.S.Grewal, Advanced Accountancy (Sultan Chand & Co.)
8. Jain & Narang, Financial Accounting (Kalyani Publishers)

THANKS!

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