

AS-14 (Accounting for amalgamation)

Ind-AS-103 (Business combinations)

Accounting for amalgamation will be in three stages

- 1) Computation of Purchase Consideration → AS-14 Defines P.C.
- 2) Accounting in books of Tfrror co → ~~AS-14~~
- 3) Accounting in books of Tfrrer co → AS-14 ✓

Purchase consideration : As per AS-14 P.C. means Consideration payable to Shareholders.

Share holder here means

- a) Equity Share holders and
- b) Preference Share holders.

Note 8 Consideration payable to debenture holders and creditors will not be forming part of P.C.

Note: As per explanations given in AS-14 normally P.C. is computed using following methods.

- a) Net Asset method
- b) Net payment method.

Note: Apart from above methods there can be other methods which can be used for computing purchase consideration e.g. Lump sum consideration or Discounted cash flow approach etc.

2) Accounting in books of transferor co

In books of transferor co we are doing the accounting for liquidation or closure of business.

B Utd

SH	{	Esc	1,00,000	FA	5,00,000	Real
3,00,000 SH		R+S	2,00,000			
Real		NCL	3,00,000	CA	5,00,000	Real
Real		CL	4,00,000			

P.C. Say 5,00,000

Realisation acc				Tfree Co acc	
To FA	5,00,000	By NCL	3,00,000	To Realisation	5,00,000
To CA	5,00,000	By CL	4,00,000		By Sh in Tfree co 5,00,000
		By Tfree Co (P.C.due)	5,00,000		
To Sh-holders au (Gain on realisation)	2,00,000				Shares in Tfree Co au
				To Tfree Co au	5,00,000
					By Sh-holders au 5,00,000
Share holders a/c					
To Sh in Tfree Co au	5,00,000	By ESC	1,00,000		
		By RFS	2,00,000		
		By Real au	2,00,000		
	<u>5,00,000</u>		<u>5,00,000</u>		

Steps in books of T for Co :

Step 1: Empty the B/S of floor co.

For this we prepare two accounts i.e. Realisation acc & Shareholders acc. Sh. Cap. acc, Res acc (Shareholders fund) will be transferred to Shareholders acc & remaining assets & liabilities will be transferred to Realisation acc.

Note: All the balances will be transferred at their book values, irrespective of value taken at the time of computing P.C.

Note: If some transaction left in account then it will not be transferred to realisation rather we open that acc and transfer the balance there, then complete the transactions thereafter transfer it to either Realisation acc or Shareholders acc.

e.g. if cash & bank not taken over and some payments are to be made through that a/c.

Step 2 : P.C. due

Transferee au Dr
To Realisation au

Step 3 : Receive P.C.

Eq- 8th in Tfree co are Dr
Cash & Bank are Dr
Debentures etc Dr
To Tfree co are

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Step 4: Compute realisation gain / loss & Tfr to Eq. sh holder's a/c

Realisation gain / loss will be the difference between
gross consideration to equity sh. holders and
shareholders fund (SC + RES etc)

Step 5: Transfer the consideration to equity share holder's a/c

No equity share holder's a/c should tally at
Gross P.C or shareholder's fund whichever is
higher.

Note: Above will hold good if B/S of Tfror Co was prepared
as per Sch III of Co's act 2013.

Accounting of tfree Co

In case of accounting of tfree Co either it will be amalgamation in the nature of merges or amalgamation in the nature of purchase.

Conditions to be satisfied for amalgamation in the nature of merges

- 1) All assets & liabilities of transferor Co taken over.
- 2) At least 90% of face value of shareholders of transferor Co becomes the shareholders of tfree Co.
- 3) Purchase consideration is discharged in form of equity shares in transferee Co except for fractional shares
- 5) ~~4)~~ Assets & liabilities of transferor Co - intended to be recorded at their book values.
- 4) ~~5)~~ Business of transferor Co intended to be carried on.

If all of above conditions are satisfied then it is amalgamation in the nature of merges and "Pooling of interest method" will be applicable for accounting

Method 1 : Pooling of interest method.

Step 1 : P.C. due

Business Purchase ac Dr

To Liq. of Tfcor Co.

Step 2 : Incorporate assets & liabilities

Assets ac Dr (Individually at B.V.)

Reserves ac (P.C. > Paid up sh. cap) Dr

To Liabilities ac (Individually at B.V.)

To Reserves & surplus (at B.V.)

To Business Purchase

To Capital Reserve (P.C. < Paid up sh. cap)

Note : Difference between P.C. and paid up share capital of transferor Co will be adjusted against free reserves.

Note : If P.C. is less than paid up share capital of transferor Co then as per clarification given by ICAI it will be treated as Capital reserve which is not available for distribution as dividend.

Step 3 : Discharge P.C.

Liq. of Tfcor Co ac Dr

To Eq. sh. Cap. ac

To Sec. Premium ac

Method 2: Purchase method

If one or more of conditions mentioned above are not satisfied then it will be amalgamation in the nature of purchase & "Purchase method" will be applicable for accounting.

Steps in Purchase method

Step 1: P.C. due

Business Purchase au Dr
 To Liq. of Tfcor Co

Step 2: Incorporate assets & liabilities

Assets (Individually taken over) Dr (At agreed value)
Goodwill * Dr
 To Liabilities (Individually taken over) (At agreed value)
 To Business Purchase
 To Capital Reserve *

Note: If P.C. is more than net assets taken over then it is goodwill, but if P.C. is less than net assets taken over then it is Capital reserve.

Step 3: Discharge of P.C.

Liq. of Tfcor Co au Dr
 To Eq. sh. Cap.
 To Cash / Pref. sh / deb etc.

Note: Goodwill should be written off in five years.

Prob 1 (a) Computation of purchase consideration.

Step 1 : Computation of intrinsic value per share.

S/No	Particulars	X Co Ltd (T _{for})	Y Co Ltd. (T _{free})
A) Assets			
i)	Fixed Assets (8,00,000 - 40,000)	7,60,000	16,00,000
ii)	Bank	-	2,00,000
iii)	Other current assets	<u>9,00,000</u>	<u>6,60,000</u>
	Total (A)	16,60,000	24,60,000
B) Liabilities			
i)	Sundry Creditors	3,10,000	3,60,000
ii)	Unsecured loan	2,00,000	-
iii)	Secured loan	<u>-</u>	<u>5,00,000</u>
	Total (B)	<u>5,10,000</u>	<u>8,60,000</u>
C)	Net Assets (A - B)	11,50,000	16,00,000
D)	No of equity shares	10,000	80,000
E)	Intrinsic value per share (C/D)	115	20

Note : Intrinsic value per share from exam point of view is intrinsic value per equity share.

Note: Pref. shares will always be deducted in computing intrinsic value per equity share.

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Step 2 : Computation of cash payable to share holders.

Step 3 : Computation of purchase consideration.

S.No	Particulars	Amount (₹)
a)	Consideration payable in equity shares $\left[\left(\frac{10,000}{2} \times 10 \right) \times ₹10 \right]$	5,00,000
b)	Consideration payable in cash. $\left[\frac{10,000 \text{ sh}}{2 \text{ sh}} \times ₹30 \right]$	1,50,000
c)	Total purchase consideration	<u>6,50,000</u>

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Ledger accounts in books of X Co Ltd (Tfroz Co)
Realisation au

To G/W	80,000	By Unsecured loan	2,00,000
To other F.A.	8,00,000	By S. creditors	3,10,000
To C.A.	9,00,000	By Y Co Ltd au (P.C. due)	6,50,000
		By Eq. sh. holders au (Loss on realisation)	6,20,000

Eq. share holders au			
To Realisation au	6,20,000	By ESC au	10,00,000
To Eq. sh. from Y Co Ltd	5,00,000	By Cap. Res	2,00,000
To Cash from Y Co Ltd au	1,50,000	By G. Res	70,000
	<u>12,70,000</u>		<u>12,70,000</u>

Y Co Ltd au (Tfroz Co)			
To Realisation au	6,50,000	By Eq. sh. in Y Co Ltd	5,00,000
		By Cash from Y Ltd au	1,50,000

Eq. sh. from Y Co Ltd au			
To Y Co Ltd au	5,00,000	By Eq. sh. holders au	5,00,000

Cash from Y Co Ltd au			
To Y Co Ltd au	1,50,000	By Eq. sh. holders au	1,50,000

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WN : Journal entries in books of Y Co Ltd (If X Co)
[Amalgamation in the nature of purchase]

Sl No	Particulars	Dr	Cr
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1) P.C. due

Business Purchase ac		Dr	X 6,50,000
To Liq. of X Co Ltd			X 6,50,000

2) Incorporation of assets & liabilities.

Fixed assets		Dr	7,60,000
Current assets ac		Dr	9,00,000

To S. crs ac			3,10,000
To unsecured loans			2,00,000
To Business purchase			X 6,50,000
To Capital Reserve*			5,00,000

3) Discharge of P.C.

Liq. of X Co Ltd ac		Dr	X 6,50,000
To Eq. sh. Cap. ac			5,00,000
To Cash/bank ac			(-) 1,50,000

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Balance sheet of Y Co Ltd after absorption of X Co Ltd

SINO	Particulars	Amount	Amount
A)	<u>Equity & Liabilities</u>		
I)	<u>Share holders fund</u>		
a)	Share Capital.		
	Eq. Sh. Cap. of ₹ 10 each (8,00,000 + 5,00,000)	13,00,000	
b)	<u>Reserves & Surplus</u>		
i)	Capital Reserve (0 + 5,00,000)	5,00,000	
ii)	Gen. Res (8,00,000 + 0)	8,00,000	26,00,000
II)	<u>Non current Liabilities</u>		
a)	Secured loans (5,00,000 + 0)	5,00,000	
b)	Unsecured loans (0 + 2,00,000)	2,00,000	7,00,000
III)	<u>Current Liabilities</u>		
a)	Sundry Creditors (3,60,000 + 3,10,000)		6,70,000
			39,70,000
B)	<u>Assets</u>		
I)	<u>Non current Assets</u>		
a)	<u>Fixed Assets</u>		
i)	Tangible assets (16,00,000 + 7,60,000)	23,60,000	
ii)	Intangible assets (0 + 0)	0	23,60,000
II)	<u>Current assets</u>		
a)	Bank (2,00,000 - 1,50,000)	50,000	
b)	Other CA (6,60,000 + 9,00,000)	15,60,000	16,10,000
			39,70,000

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Prob. 2 WN: Computation of intrinsic value per share. (₹ crores)
S.No Particulars Vibham Ltd (Tfor) Shubham Ltd. (Tfree)

A) Assets

a) Fixed Assets	200	129
b) Goodwill	40	75
c) Net current Assets	<u>200</u>	<u>200</u>
Total (A)	440	704

B) Liabilities

a) Secured loan	100	100
b) Pref. Sh. Capital	<u>-</u>	<u>60</u>
	<u>100</u>	<u>160</u>

C) Net Assets (A-B)	340	544
D) No of eq. shares (No's crores)	5	4
E) Intrinsic value per share (C/D) (₹)	68	136

WN 2: Computation of P.C.

$$a) \text{ SER} = \frac{\text{Int. value of Tfor Co (Vibham)}}{\text{Int. value of Tfree Co (Shubham)}} = \frac{68}{136} = 0.50:1$$

i.e. 0.50 shares in Shubham Ltd (Tfree) for 1 share held in Tfor Co (Vibham)

$$b) \text{ No of shares issued} = \text{No of sh. of Tfor Co} \times \text{SER} \\ = 5 \text{ cr sh} \times \frac{0.50}{1} = 2.50 \text{ cr shares}$$

$$c) \text{ Purchase consideration} = \text{No of shares issued} \times \text{Agreed value per share} \\ = 2.5 \text{ cr sh} \times ₹ 10 = ₹ 25 \text{ cr}$$

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Journal entries in books of Shubham Ltd (Tfrrco) (~~₹~~ in crores)

[Amalgamation in the nature of merger (Pooling of interest method)]

S/No	Particulars	Dr	Cr
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1) P.C. due

Business Purchase acc	Dr	25	
To Liab. of Vibham Ltd			25

2) Incorporate assets & liabilities.

Fixed Assets acc ✓	Dr	150 ✓	
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Net current assets acc ✓	Dr	200 ✓	
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To Secured loan ✓			100
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To Reserves & Surplus ✓			200 ✓
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To Business Purchase			25
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To Capital Reserve ✓			25
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[P.C. (25) - Paidup Cap. (50)]

3) Discharge of P.C.

Liab. of Vibham Ltd acc	Dr	25	
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To Eq. Sh. Cap. acc ✓			25
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Balance Sheet of Shubham Ltd after absorption of Vibham Ltd.
(₹ in Crores)

S.No	Particulars	Amount	Amount
A)	<u>Equity & Liabilities</u>		
I)	<u>Share holders fund.</u>		
a)	Share Capital.		
i)	Equity Sh. Capital (40 + 25)	65	
ii)	Pref. Sh. Capital (60 + 0)	<u>60</u>	
		125	
b)	Reserves & Surplus (150 + 200 + 25) (Cap. Res)	375	500
II)	<u>Non Current Liabilities</u>		
a)	Secured loans (100 + 100)		200
III)	<u>Current Liabilities</u>		<u>-</u>
			<u>700</u>
B)	<u>Assets</u>		
I)	<u>Non Current assets</u>		
a)	<u>Fixed Assets</u>		
i)	Tangible assets (150 + 150)	300	
ii)	Intangible asset (0 + 0)	<u>0</u>	300
II)	<u>Current Assets</u> (200 + 200)		<u>400</u>
			<u>700</u>