

AMALGAMATION OF COMPANIES - II

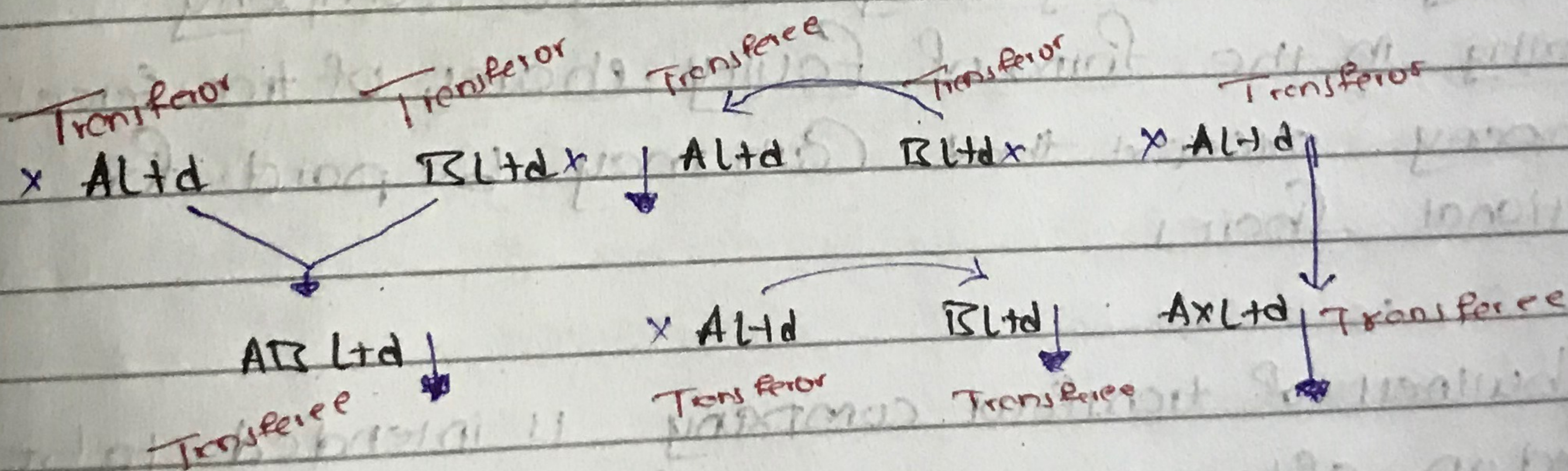
AS-14 - ACCOUNTING FOR AMALGAMATIONS:

Amalgamation means an amalgamation pursuant to provisions of companies act (or) any other statute, which may be applicable to companies.

Transferor company means a company which is amalgamated into another company

Transferee Company means a company into which transferor company is amalgamated

Amalgamation Absorption ^{External} reconstruction



- AS 14 is applicable only when the transferor company is dissolved.
- AS 14 deals with accounting treatment in the books of transferee company
- AS 14 classifies amalgamations into two types:
 - (a) Amalgamation in the nature of merger
 - (b) Amalgamation in the nature of purchase

• An amalgamation is called as an amalgamation in the nature of "merger" only when it satisfies all of the following 5 Conditions

(a) All ~~assets~~^{non-currently current} and liabilities^{outside liabilities} of transferor company become after amalgamation ~~assets~~ and liabilities of transferee company

(b) Share holders holding not less than 90% of face value of equity shares in transferor company become equity share holders of transferee company by virtue of amalgamation

(c) The consideration for amalgamation receivable by those equity shareholders of transferor company who agreed to become equity share holders of transferee company is discharged by transferee company wholly in the form of Equity shares of transferee company except that Cash may be paid for fractional shares

(d) The business of transferor company is intended to be carried on after amalgamation by the transferee company
General Assumption:

(e) No adjustment is intended to be made to the book values of assets and liabilities of transferor company when they are incorporated in the books of transferee company except to ensure uniformity of accounting policies.

NOTE: The differentiation between Amalgamation in the nature of merger and purchase is only in the Books of transferee.

→ If any one or more of the above conditions are not satisfied then the amalgamation is treated as an amalgamation in the nature of purchase.

• Purchase consideration: ^{form of purchase consideration can be any thing} Any thing ^{Equity share holder & Preference share holders} given to Share holders of transferor company by the transferee company in the process of amalgamation. It is called as purchase consideration.

• Method of Accounting:

1. Pooling of Interest method: - If amalgamation in the nature of merger

2. Purchase method: - If amalgamation in the nature of purchase

Amalgamation is in the Nature of merger (Pooling of Interest method)

Amalgamation is in the Nature of purchase (Purchase method)

① All assets, liabilities & Reserves of transferor company shall be recorded at same book values in the books of transferee company

① Assets and liabilities of transferor company acquired by transferee company shall be recorded at agreed value or Book value or Any other value in the Books of transferee Co.

Exception:

Profit & loss A/c of transferor company → Profit & loss (or) General reserve of transferee Co.

* ② If there is any conflict regarding accounting policies followed by transferor company and transferee company then an uniform set of accounting policies can be adopted.

② Reserves of transferor company

- The non statutory reserves of transferor company need not be maintained by transferee company.

- * The statutory reserves of transferor company should be maintained by transferee company By passing following journal entry

② The difference between purchase consideration and paid up capital of transferor company is adjusted against reserves

* If purchase consideration

> Paid up Capital of

transferor company then

the difference is to be

adjusted against

① Free reserves of transferor Co.

② Free reserves of transferee Co.

③ Debited to P&L A/c

* If purchase consideration

< Paid up Capital of

transferor company then

the difference is to be

Credited to Capital reserve

• Amalgamation Adjustment

reserve A/c

To Statutory
reserves A/c

② The difference between

purchase consideration and

Net assets taken over is

adjusted to either goodwill

(a) Capital reserve.

* If purchase consideration is

> Net assets then the

difference is debited to

Goodwill Account.

* If purchase consideration

< Net assets then the

difference is credited to

Capital reserve A/c

- Part - I - Calculation of purchase consideration
- Part - II - In the books of transferor company
- Part - III - In the books of transferee company

→ Part - I Calculation of Purchase Consideration

Payment will be Specified Clearly

Net Assets Method

Net Payments Method

Agreed value of Assets taken over

Aggregate value of

Goodwill → As our target is to calculate purchase consideration we have to consider Goodwill xxx

Land & buildings xxx

Plant & machinery xxx

Furniture & Fixtures xxx

Stock xxx

Debtors xxx

Cash & Bank $\frac{xxx}{xxxx}$

Shares/Securities issued xxx

Cash / Assets xxx

Purchase consideration xxxx

If not given then consider Book value

Agreed value of Liabilities taken over

Debentures (xxx)

Creditors (xxx)

Bank loan (xxx)

Purchase consideration (Net Assets) xxx

- Additional calculations to be required in transferee related

Merger	Purchase	Merger	Purchase
Purchase Consideration xxx	No difference	Purchase Consideration xxx	Calculation of Goodwill/Capital reserve
Paid up Capital of transferor (xxx)	Arises as Purchase consideration is calculated Based on Net Assets.	Paid up Capital of transferor Co. xxx	Purchase Consideration xxx
Difference xxx		Difference xxx	Net Assets (xxx)
			Difference xxx

Goodwill should not be considered as our motive is to calculate Goodwill/Capital reserve

→ Part-II In the Books of transferor company

- Step-I → Transfer of Assets and outside liabilities to realisation Account at Gross book value. (Whether or not taken over by transferee company)

- Transfer all intangible Assets also including Goodwill
- Don't transfer fictitious Assets. (like preliminary expenses, Incorporation expenses, underwriting commission, Discount on issue of Shares or debentures, Profit and loss A/c Debit balance etc)
- Transfer Cash and bank balance to realisation A/c only when it is taken over by transferee company

→ JOURNAL ENTRIES.

- Transfer of Assets to realisation Account Total.

* Realisation A/c

To Assets A/c (Individually)

Dr xxx

xxx
↓
Gross book value.

- Transfer of Outside liabilities to realisation A/c

* Outside liabilities A/c (Individually) or Gross book value

To Realisation A/c

xxx
↓
Total

- Step-II → Transferee company - purchase consideration related

→ Purchase consideration due

* Transferee Co. A/c

To Realisation A/c

Purchase consideration
Dr xxx

xxx

→ Receipt of purchase consideration

* Shares / Securities in transferee co.

Cash A/c

To Transferee co.

Includes both Capital & Premium.
Part of consideration received in form of Securities
Dr xxx

Dr xxx Paid consideration received in cash

Purchase consideration
xxx

- Step - III → Realisation/Liquidation Expenses, Disposal of assets not taken over by transferee company & Discharge of liabilities not taken over by transferee co.

• Realisation/Liquidation Expenses

→ Case-I - Borne by transferor company

* Realisation A/c

Dr

Actual
paid

To Cash and Bank A/c

xxx

→ Case-II Borne by transferee company

No Entry

- Disposal of Assets not taken over by transferee company

*

Cash and Bank A/c

Dr Sale value

To Realisation A/c

Sale value

- Discharge of liabilities ^{not} taken over by transferee company

*

Realisation A/c

Dr Paid value

To Cash and Bank A/c

Paid value

- Step - IV → Preference Shareholders

→ Transfer of preference share capital to preference shareholders A/c

*

Preference share capital A/c

Dr

To Preference shareholders A/c

→ Settlement to preference shareholders

*

Preference shareholders A/c

Dr

To Shares in transferee Co. A/c

To Cash and bank A/c

NOTE - The difference between preference share capital amount payable to preference ^{share}holders is adjusted to realisation A/c.

• Step V: Equity Shareholders.

→ Transfer of Equity Share Capital, Reserves & Surplus to Equity Shareholders A/c

* Equity Share Capital A/c Dr

Reserves & Surplus A/c Dr

To Equity Shareholders A/c

→ Transfer of Fictitious Assets to equity Shareholders A/c

* Equity Shareholders A/c Dr

To Fictitious Assets A/c

→ Close realisation account and balance should be transferred to Equity Shareholders A/c

→ Profit on Realisation

* Realisation A/c Dr

To Equity Shareholders A/c

→ Loss on Realisation

* Equity Shareholders A/c Dr

To Realisation A/c

→ Settlement to Equity Shareholders.

* Equity Shareholders A/c

To Shares/Securities in

transferee co. A/c

To Cash and Bank (balance)

→ Part-III In the Books of transferee Company

Amalgamation is in the Nature of Meige (Pooling of Interest Method) Amalgamation is in the Nature of Purchase (Purchase method)

→ Business purchase A/c ^{Purchase} Dr ^{Consideration} → Business purchases A/c ^{Purchase} Dr ^{Consideration}
 To Liquidator of ^{To Liquidator of} transferor co. A/c transferor co. A/c

→ Fixed Assets A/c ^{Dr} ^{Book values} → Fixed Assets A/c ^{Dr} ^{Agreed value} ^{Book value}
 Current Assets A/c ^{Dr} ^{Book values} Current Assets A/c ^{Dr} ^{Agreed value}
 To Liabilities A/c ^{Book values} Goodwill A/c ^{Dr} ^{Agreed value} ^{difference of} ^{PC and NA if} ^{PC > NA}
 To Free reserves A/c ^{Book values} To Liabilities A/c ^{Agreed value} ^{difference of} ^{PC and NA if} ^{PC < NA}
 To Statutory reserve A/c ^{Book values} To Capital reserve A/c ^{PC and NA if} ^{PC < NA}
 To Business purchases A/c ^{Purchase} ^{Consideration} To Business purchases A/c ^{Purchase} ^{Consideration}

* The difference between purchase consideration and paid up capital of transferor Company is adjusted against Reserve.

* The difference between purchase consideration and Net assets taken over is adjusted to either goodwill Account (or) Capital reserve A/c

→ Liquidator of transferor co. A/c ^{Purchase} ^{Consideration} ^{Capital}
 To Equity Share Capital A/c ^{Capital}
 To preference share Capital A/c ^{Capital}
 To Securities premium A/c ^{Premium}
 To Cash and Bank A/c ^{only for fractional shares} ^{descendant share holders}
 Liquidator of transferor co. A/c ^{Purchase} ^{Consideration}
 To Equity Share Capital A/c ^{Capital}
 To Preference Share Capital A/c ^{Capital}
 To Securities premium A/c ^{Premium}
 To Cash and Bank A/c ^{only for fractional shares} ^{descendant share holders}

→ Amalgamation expenses.

→ Case-I - Borne by transferor Company

* NO ENTRY.

• Case-II - Borne by transferee Co.

* Reserve/Profit & Loss A/c or
To Cash and Bank A/c

→ Amalgamation expenses

• Case-I - Borne by transferor Company

* NO ENTRY

• Case-II - Borne by transferee Company

* Goodwill/Capital Reserve A/c or
To Cash & Bank A/c

→ Cancellation of Inter company
owings.

Creditor (or) Bills payable A/c or
To Debtor/Bills receivable A/c

→ Cancellation of Inter company
owings

Creditor/Bills payable A/c or
To Debtor/Bills receivable A/c

→ Elimination of unrealised profit
in stock

Reserve/Pay A/c or
To Stock/Stock reserve A/c

→ Elimination of unrealised profit
in stock

Goodwill/Capital reserve A/c or
To Stock/Stock reserve A/c

→ ~~Not applicable
as statutory reserve
is already considered
in point-2.~~

→ Maintenance of Statutory
Reserves.

Amalgamation Adjustment Reserve
To Statutory reserve A/c