

One Day before Question Bank

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PAPER – 1 ADVANCED ACCOUNTING

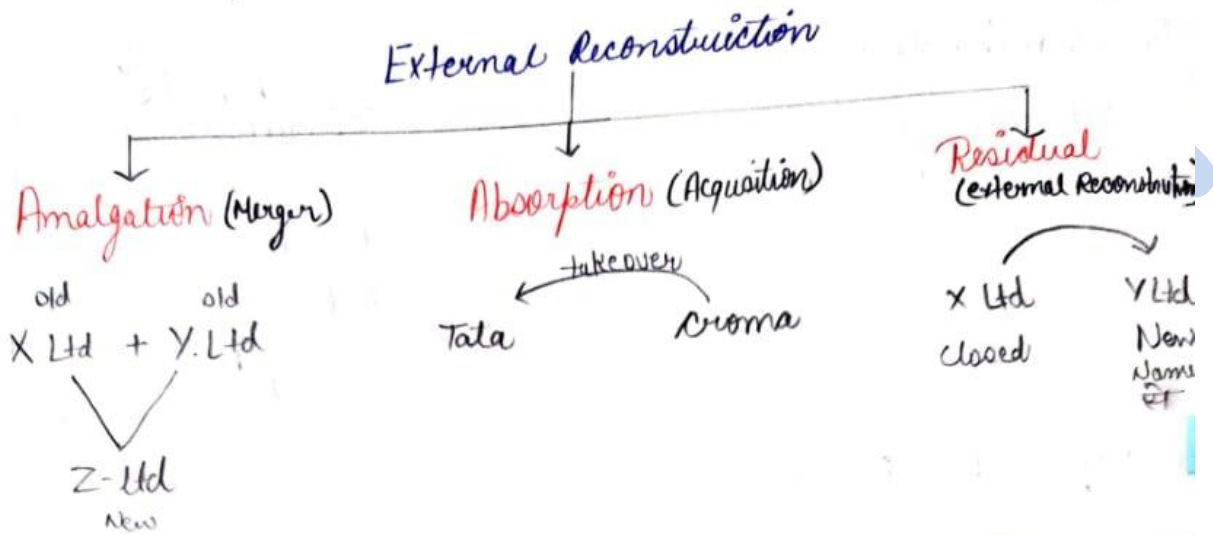
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AS-14 AMALGAMATION

Amalgamation - AS-14



Amalgamation	X Ltd + Y Ltd = Z Ltd	Old Vendor Transferees X Ltd, Y Ltd	Purchasing Transferee Z Ltd
Absorption	Tata ← takeover → Corona	Corona	Tata
Residual	X Ltd (old) → Y-Ltd (New)	X Ltd	Y Ltd

Purchase Consideration :- Value at which business purchase

Share & other securities issued And OR cash / other assets given OR cash assets

Equity preference debenture

→ by purchasing company!

↓

To Shareholder of old comp.

Eq. pref.

ITR - old IT '0' 31121 -transferees IT 21 '0'

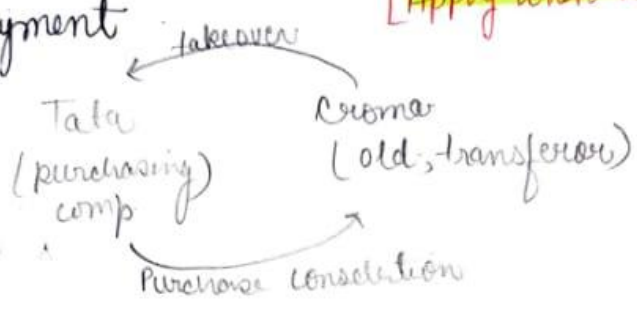
Method

Net payment
↓
To Shareholder (eq, pref)
↓
old company

Net assets
↓
Assets
↳ outsider liability
xxx
* taken over value etc
* Not include:
Capital Reserve Surplus & losses

[Apply when Amt. not given]

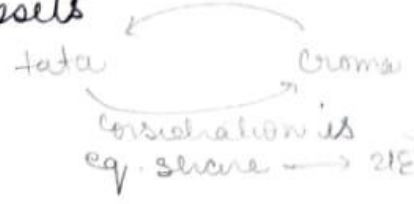
Example - Net payment



Tata	→	Chroma	✓
Eq. share	→	equity / pref.	✓
pref. share	→	equity / pref.	✓
debtenture	→	equity / pref.	✓
Cash	→	equity / pref.	✓
Eq. share	→	debtenture holder.	X

(bez share, security, Assets, cash etc old company's shareholder is not (deb holder))

Example - Net assets



Chroma - Assets 40 lakhs
 (-) outsider Liab. (10 lakhs)
30 lakhs → Tata (eq share) → Y held (Share holder)
 30 lakhs

And. 211 part share is 211 part 211 211 Net assets method

ITR - Equity share issue of 100 each (Market value = 125)
 then: Purchase consideration = 1000 Share X 125 Rs

MV - (125)

Payment to	Payment in	working Notes	Amt.
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Types of Amalgamation

Nature of **Merger or Pooling**

Nature of **purchase**
 5 condition में से एक
 ही follow ही हुई तो ये

Following 5 condition fulfilled -

1. All assets **transferred**
 Liability
2. All assets **transfer - Book value**
 Liability

Exception -

Purchasing Comp → can change value to follow same accounting policy

Ex - old follow - FIFO

Purchasing - LIFO ही stock transfer होना
 उस Comp में ही value
 as per LIFO ही होगा

3. Purchase consideration discharged - **Issue equity share**

↓
 to equity
 share holder
 (old)

4. Same business **intended to carried** → Purchasing Comp.
 Ex - Tata after acquire become same AC, TV selling
 ही business ही ही ही ही ही ही ही ही

5.

Vendor/old
 Min. - 90% F.V
 Eq. share holder

Become

Purchasing
 Comp
 Eq share holder

Books of purchasing Company

① Acquisition of business from Vendor (old) Comp.

Business Purchase A/c Dr Amt: Purchase consideration
 To Liquidation of Vendor Company A/c

② Taking Assets / Liability

A. Nature of Merger [Merge एट रेट एट रिजर्व आ आर आर]
 Assets A/c Dr [Amt: Book value]
 To Liabilities A/c [Amt: Book value]
 To Reserves (Book value + adjustment (Dr ≠ Cr) of difference)
 To Business purchase [Amt: Purchase consideration]

B. Nature of Purchase [खरीद एट ए फर्क assets - liability]

Assets A/c [Amt: Taken value]
 Goodwill A/c (Diff. If any)
 To Liabilities A/c [Amt: Taken value]
 To Business Purchase A/c [Amt: Purchase consideration]
 To Capital Reserve A/c (diff. If Any)

③ Reserve Statutory Reserves of Vendor Company

[Only purchase Method - becz reserves are not transferred in this method.]

Amalgamation Adjustment Reserve A/c Dr
 To Statutory Reserve A/c

Require to maintain for specific No of years in b/s as per requirement of statute like Income tax Act.

④ Make payment of Vendor Company - only for Shareholder (Etc)

Liquidation of Vendor Company A/c Dr
 Discount on issue of deb A/c Dr
 To Eq. share cap / pref. share cap. A/c
 To S.P.R. A/c
 To Debenture A/c
 To Bank A/c

5. जो Old Comp. के deb. holder से अब उनके Old Comp. के deb. खर्च
 हो गये (becz Company close) तो उनके बदले Purchasing के
 deb. Issue हो गये।

Debiture of old comp. A/c Dr
 Discount on issue of deb A/c Dr - when Pur. comp. issue
 at Dis.
 To Deb A/c
 To Security Premium A/c - when Pur. comp. issue
 at Premium.

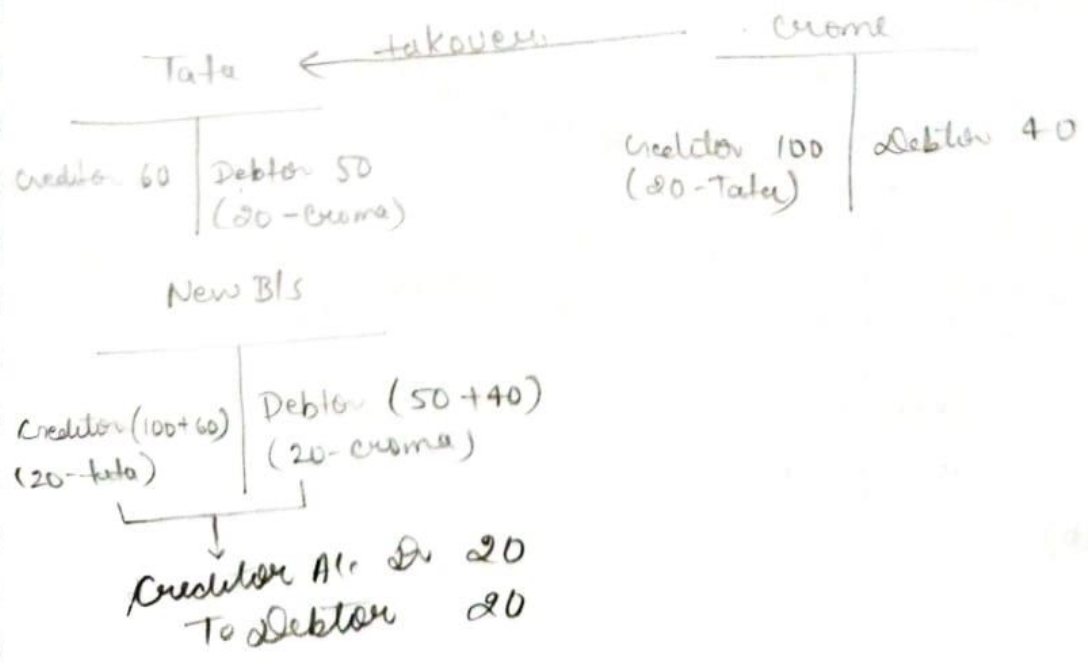
6. Write off / Pay Liquidation expenses of old Comp.

A. Nature of Merger
 P&L or General Reserve
 To Bank A/c

B. Nature of Purchase
 Goodwill or Capital Reserve
 To Bank

* अगर entry में h.w. 31/12 को VO.
 no. 2. C.R. 31/12 को VO.

7. Elimination Inter Company owing
 Liability A/c Dr
 To Assets A/c



⑧ Eliminate Unrealized profit → Unsold Stock or Stock Reserve.

A. Nature of Merger

P&L Or General Reserves $\times \times \times$
 To Stock Alc $\times \times \times$ (profit)

B. Nature of purchase

Goodwill Or Capital Reserve
 To Stock Alc

Value of Stock Held \times Gr.P.% on Sale of seller

→ % on Sale =
 becz vo stock effect is
 sale price means sale price
 $\frac{10000}{100000} \rightarrow$ Profit = 10%
 \rightarrow sale on sale

X Ltd — Sale —> Y Ltd
 Cost = 100000
 + Profit = 20000
 Sale = 120000
 Purchase = 120000
 ↓
 closing 3/3 → Stock = 48000

← becz X Ltd takeover Y Ltd

B/S: Y Ltd
 X Stock $\times \times \times$
 Y Stock 48000
 ↓
 effect include
 25% profit

48000 (sale price for X Pur. for Y)
 $\frac{48000 \times 20000}{120000}$
 = 8000 profit
 ↓
 Stock Reserve or Unsold stock

Refer Q17 (5.20)

T.T.R - Taken Over value of Stock - Cost of goods taken over (Book value of calculate T.T.R on old com) = Profit *

Book of Old Company

Note: Book of old company पर As-17 not applicable because its apply procedure of liquidation.

(i) Transfer of Assets

Realization A/c Dr - Book value
To Assets A/c - Book value

Note → वैसे वारे जाते हैं चाहे Pur. Comp. take over करे या नही becz नही की तो खुद ही ठीक-ठीक होगा

So, Cash transfer only when take over by pur. Comp.
अर्थात् नही किया तो 100 का बचत होगा ही।
(cash)

Note -- debt है तो debitor अलग में
(-) provision है तो debitor अलग में
Pur. 370121

(ii) Transfer of Outside liability

Outside liabilities A/c Dr
To Realization A/c

Note - Provision on assets side shown here.

(iii) Purchase consideration due

Purchasing Company A/c Dr (debt due)
To Realization A/c (Amt. of pur. consideration)

(iv) Purchase consideration Receive

Cash A/c Dr
Eq. share A/c Dr (Pur. Comp. में) - (face + pre.)
Pref. share A/c Dr (Pur. Comp. में)
debenture A/c Dr (Pur. Comp. में)
To Purchasing Comp. A/c.

(v) Realize assets - uit taken over \rightarrow ET \rightarrow A.

Cash A/c Dr
To Realization A/c

(vi) Pay - liabilities - uit taken over \rightarrow ET \rightarrow A

Realization A/c Dr
To Cash A/c

(vii) Expenses - Liquidation / Realization \rightarrow A

(i) borne & paid by $\frac{\text{Vendor}}{\text{old}}$ Comp

Realization A/c Dr
To Cash A/c

(ii) Reimbursed by Purchase Comp.

Realization A/c Dr xxx
To Cash A/c xxx

(Expenses total - paid by pur. Comp = remaining paid by old)

(viii) Pref. share holders due

transfer $\left\{ \begin{array}{l} \text{Pref. share Capital A/c Dr} \quad (\text{Book value}) \\ \text{Realization A/c Dr} \quad (\text{diff}) \\ \text{To Pref. share holder A/c} \quad (\text{actually payable}) \\ \text{To Realization A/c Dr} \quad (\text{diff}) \end{array} \right.$

Pref. share holder A/c payment

Pref. share holder A/c Dr
To Cash
To Eq. share (Pur. Comp'n)
To pref share (Pur. Comp'n)
To Reserve (Pur. Comp'n)

Realization A/c

To Eq. share holder
(Profit)

by Eq. share holder
(Loss)

(x) Eq. share holder - Due

(i) Transfr of Eq. Capital & Reserves & profit

Eq. share Cap. A/c Dr
Reserve & surplus A/c Dr (Incl. - statutory reserves)

To Eq. share holder A/c

(ii) Transfr of losses

Eq. share holder A/c Dr

To P&L A/c (Dr Bal)

To Misc. Expenditure A/c

(x) Eq. share holder A/c - payment

Eq. share holder A/c Dr

To Cash

To Eq. share (Pr. Comp'n)

To Prof. share (Pr. Comp'n)

To Diverture (Pr. Comp'n)

TTR → Old comp. का Bank/cash में taken over होता है जो VO Realization में आता है but after (-) उसे जितना cash pay कर old में फिर last में भी balance आता है VO।
Refer - Ass. - Q-15
P. 5.19

Note - जो liability take over नहीं है तो pay कर दिये।
अगर Question कुछ ना बोलें तो F.V पर ही।
Same Assets. Refer Q-17 (5-20)

TOPIC 5: INTRINSIC VALUE METHOD

Intrinsic Value
(Variation of Net Assets Method)

$$\text{No. of Shares of New Co.} \times \text{Intrinsic value of New Co.} = \text{No. of Shares of Old Co.} \times \text{Intrinsic value of Old Co.}$$

$$\text{No. of Shares of New Co.} \Rightarrow \text{No. of Shares of Old Co.} \times \frac{\text{I.V. of Old Co.}}{\text{I.V. of New Co.}}$$

Where

$$\text{Intrinsic Value} = \frac{\text{Net Assets available for ESH}}{\text{No. of Equity shares}}$$

CA NITIN GOEL (PW) QUESTION BANK -

https://drive.google.com/file/d/1zB7cVsxPhfc2mERNt1EWxbNX1MAa_Gv/view?usp=drive_link

GROOMING EDUCATION QUESTION BANK -

https://drive.google.com/file/d/1woAFoJl541c14BZ_-ZlUIYFZMTzJQZze/view?usp=drive_link

PYQS, RTPS, MTPS - <https://t.me/CAINTERBYSHU/4/38>

IMPORTANT OR UNIQUE ADJUSTMENT

Issue 12% preference shares of ₹ 10 each fully paid up at par to provide income equivalent to 8% return on net assets in the business as on 31.3.2020 after revaluation of assets of Neel Ltd. and Gagan Ltd. respectively.

⇒ Let's assume. Assets after Revaluation = 10 lakhs.
 (←) outside liability after Rev. = 2 lakhs
Net assets = 8 lakhs

Return on Net assets = 8 lakhs × 8%
 = 64000

Here, the Ques. Says that → Pref share capital × 12% = 64000
 or
Pref share cap × 12% = Net assets × 8%

→ Pref. share cap. = $\frac{64000}{12\%}$
or
 $64000 \times \frac{100}{12}$
 = 5,33,333.33

The Debentures of Glory Ltd. are to be discharged, by the issue of 8% Debentures of Glorious Ltd. at a premium of 10%.

- HERE , WE CAN TAKE 3 AJUMPTION -
- i. DISCHARGE AT PREMIUM AND ISSUE AT PAR
 - ii. DISCHARGE AT PAR AND ISSUE AT PREMIUM
 - iii. DISCHARGE AT PREMIUM AND ISSUE AT PRIMIUM

Intrinsic value per share of X Ltd. is ₹ 20 & that of Y Ltd. ₹ 30. Y Ltd. will issue equity shares to satisfy the equity shareholders of X Ltd. on the basis of intrinsic value. However, **entry should be made at par value only.** The nominal value of each equity share of Y Ltd. is ₹ 10.

LET'S , ASSUME – NET ASSETS SHARE OF X LTD. 75000

NO OF SHARE OF NEW COMPANY = $75000 \times \frac{20}{30} = 50000$ SHARES

AMT. OF ISSUE EQUITY SHARE – 50000×30 (*IN GENERAL CASE)

BUT HERE , QUES. SPECIFICALLY SAYS, “ISSUE AT PAR VALUE ONLY”. = 50000×10

The following is the summarized Balance Sheet of X Ltd. as at 31st March, 2023:

Liabilities	₹	Assets	₹
4,000 Equity shares of ₹ 100 each	4,00,000	Patent	65,000
10% debentures	2,00,000	Buildings	1,70,000
Loans	80,000	Machinery	3,20,000
Trade Payables	1,60,000	Stock ✓	1,10,000
General Reserve	40,000	Trade Receivables	1,30,000
		Cash at bank	68,000
		Share Issue Expenses	17,000
	8,80,000		8,80,000

- Y Ltd. would take over all assets, except bank balance & Patent at their book values less 10%. Goodwill is to be valued at 4 year's purchase of super profits, assuming that the normal rate of return be 8% on the combined amount of share capital and general reserve.
- Y Ltd. is to take over trade payables at book value.
- The purchase consideration is to be paid in cash to the extent of ₹ 3,00,000 and the balance in fully paid equity shares of ₹ 100 each at ₹ 125 per share.

The average profit is ₹ 62,200. The liquidation expenses amounted to ₹ 8,000. Y Ltd. sold prior to 31st March, 2023 goods costing ₹ 60,000 to X Ltd. for ₹ 80,000. ₹ 50,000 worth of goods are still in inventory of X Ltd. on 31st March, 2023. Trade Payables of X Ltd. include ₹ 20,000 still due to Y Ltd.

$Stock = 1,10,000$ (include 50,000) takeover $(-)$ 10% $\Rightarrow 45,000$
 $Sale = Cost = 60,000$
 $(+) GP = 20,000$ 80,000 $\left(\frac{20,000}{80,000} \times 100 = 25\% GP \text{ on Sale} \right)$

\rightarrow Actual cost of stock which was transferred, $= (50,000 \times 25\% = 12,500)$
 $is = 50,000 - 12,500$
 $= 37,500$

$Y Ltd.$ \swarrow $X Ltd$
 $50,000 - 10\% = 45,000$

taken over value of stock $\rightarrow 45,000$
 $(-)$ 37,500 \rightarrow Cost of stock which was taken over
7,500

Hence, Element Unrealized profit Included in Unsold Stock are \rightarrow 7500

Truth Limited would issue 12% debentures to discharge the claim of the debenture holders of Myth Limited so as to maintain their present annual interest income. Non-trade investment, which constitute 80% of their respective total investments yielded income of 20% to Truth Limited and 15% to Myth Limited. This income is to be deducted from profits while computing average profit for the purpose of calculating goodwill.

Profit before tax of both the companies during the last 3 years were as follows:

	Truth Limited (₹)	Myth Limited (₹)
2018-2019	8,20,000	2,55,000
2019-2020	7,45,000	2,15,000
2020-2021	6,04,000	2,14,000

Goodwill is to be calculated on the basis of simple average of three years profit by using Capitalization method taking 18% as normal rate of return. Ignore taxation. Purchase consideration is to be discharged by Truth Limited on the basis of intrinsic value per share. Prepare Balance Sheet of Truth Limited after the amalgamation.

GOODWILL FROM AVG. PROFIT METHOD = (SAME AS PARTNERSHIP A/C IN CA FOUNDATION OR CLASS 12)

CAPITALIZED VALUE (AVG. PROFIT $\times \frac{100}{ROR}$) – CAPITAL EMPLOYED (ASSETS-OUTSIDER LIABILITY)

**NOTE – WHILE CALCULATING CAPITAL EMPLOYED YOU HAVE TO IGNORE
NON -TRADE INVESTMENT IN TOTAL INVESTMENT**

- (iv) Inventory in Trade and Debtors are taken over at 5% lesser than their book value.
- (v) ₹ 60,000 is to be paid by VT Ltd. to MG Ltd. for Liquidation expenses.
- (vi) Sundry Debtors of MG Ltd. includes ₹ 20,000 due from VT Ltd.

AS PER THE ASSUMPTION OF ICAI, (Inter MAY 2019, RTP MAY23)

FIRST, ELIMINATE INTER COMPANY OWING.

THEN, INVENTORY ARE TAKE OVER AT 5% LESSER THAN THEIR BOOK VALUE.

IMPORTANT THEORY QUESTION

Briefly describe the disclosure requirements for amalgamation including additional disclosure, if any, for different methods of amalgamation as per AS 14. Or
What disclosures should be made in first financial statements following the amalgamation?

Solution

The disclosure requirements for amalgamations have been prescribed in paragraphs 43 to 46 of AS 14 on Accounting for Amalgamation.

For all amalgamations, the following disclosures should be made in the first financial statements following the amalgamation

- a. names and general nature of business of the amalgamating companies;
- b. the effective date of amalgamation for accounting purpose;
- c. the method of accounting used to reflect the amalgamation; and
- d. particulars of the scheme sanctioned under a statute.

For amalgamations accounted under the pooling of interests method, the following additional disclosures should be made in the first financial statements following the amalgamation:

- a. description and number of shares issued, together with the percentage of each company's equity shares exchanged to effect the amalgamation; and
- b. the amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof.

For amalgamations, accounted under the purchase method, the following additional disclosures should be made in the first financial statements following the amalgamation;

- a. consideration for the amalgamation and a description of the consideration paid or contingently payable; and
- b. the amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof including the period of amortization of any goodwill arising on amalgamation.

To be uploaded soon.....

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