One Day before Question Bank

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SCAN ME

PAPER – 1 ADVANCED ACCOUNTING

AS-14 AMALGAMATION

Amalgation – AS-14

External Reconstruction

- Amalgation (Merger)
  - old X Ltd + old Y. Ltd → Z-Ltd New
- Absorption (Acquisition)
  - Tata ←takeover— Croma
- Residual (external Reconstruction)
  - X Ltd Closed → Y Ltd New Name से

		Old Vender Transferor	Purchasing Transfree
Amalgation	X Ltd + y Ltd = Z Ltd	X Ltd, Y Ltd	Z Ltd
Absorption	tata ←takeover— croma	Croma	tata
Residual	X Ltd (old) → Y Ltd (New)	X Ltd	Y Ltd

Purchase Considiration :- value at which business purchase

Share & other securities issued And/OR cash / other assets given → by purchaser company → To Shareholder of Old comp. (Eq., pref.)

Equity, preference — Debenture — Cash, assets

TTR – Old मे '0' आता transferor मे भी '0'

Method

Net payment

To Shareholder (eq, pref)

old company के

Net assets

Assets

(–) outsider liability

xxx

★ taken over value पर

★ Not Include:

- Capital
- Reserve
- Surplus & losses

[Apply when Amt. not given].

Example – Net payment

Tata (purchasing comp) ← takeover — Croma (old, transferor)

Tata → Purchase consideration → Croma

Tata के		Croma	
Eq. share	→	equity / pref.	✓
pref. share	→	equity / pref.	✓
Debenture	→	equity / pref.	✓
Cash	→	equity / pref.	✓
Eq. share	→	Debenture holder.	✗

(b/c share, security, Assets, cash सभी old company के shareholder को मिलती not Deb. holder)

Example – Net assets

Tata ← Croma

Tata → Croma

consideration is eq. share → जहाँ Amt. ना दिया share का तो लगा के ला Net assets method

Croma – Assets 40 lakh

(–) outsider Liab. (10 lakh)

30 lakh. → tata (eq share) → Y ltd (shareholder)

30 lakh के

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

Payment to	Payment in	working Notes	Amt.

Types of Amalgamation

Nature of Merger or Pooling

Following 5 condition fulfiled -

Nature of purchase
5 condition मे से एक भी follow नहीं हुई तो ये

1. All assets Liability transfered
2. All assets Liability transfert - Book value

Exeption - Purchasing Comp → can change value to Follow same accounting policy

Ex- old follow - FIFO
Purchasing - LIFO तो Stock transfer होगा
उस Comp मे तो value as per LIFO ही चाहिए

3. Purchase consideration discharged - Issue equity share → to equity share holder (old)
4. Same business Intended to carried → Purchasing Comp.
Ex - Tata after acquire Croma, Same AC, TV selling का Business करेगा जारी है
5. $\boxed{\text{Vendor/old Min. 90\% F.V eq. share holder}}$ Become → $\boxed{\text{Purchasing comp eq shareholder}}$

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Books of purchasing Company

① **Acquisition of business from Vendor (old) Comp.**

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

② **Taking Assets / Liability**

A. Nature of Merger [Merge हो रही है तो Reserve भी साथ आएंगे]

Assets A/c Dr   [Amt : Book value]
    To Liabilities A/c [Amt · Book value]
    To Reserves (Book value ± adjustment (Dr ≠ Cr) of diffrence
    To Business purchase [Amt : Purchase consideration]

B. Nature of Purchase [खरीद रहा है सिर्फ 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 **Record Statutory Reserves of Vendor Company** (old)

[Only purchase Method – becz reserves are not transferd in this method.]

Amalgation 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 (both)

Liquidator 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

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5. जो Old Comp. के Deb. holder थे अब उनके old comp. के Deb. खत्म हो गये (becz Company close) तो उनके बदले Purchasing के Deb. Issue कर देगें।

Debenture 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 no 2 में G.W आया तो VO
C.R आया तो VO

7. Elimination Inter Company Owing

Liability A/c Dr
To Assets A/c

Tata ← takeover — Crome

Tata

Creditor 60	Debtor 50 (20 - Croma)

Crome

Creditor 100 (20 - Tata)	Debtor 40

New B/S

Creditor (100+60) (20 - tata)	Debtor (50+40) (20 - croma)

Creditor A/c Dr 20
To Debtor 20

(8) Eleminate Unrealized profit → Unsold stock or Stock Reserve.

A. Nature of Merger

P&L Or General Reserves ... xxx (profit)
    To Stock A/c ... xxx

B. Nature of purchase

Goodwill Or Capital Reserve
    To Stock A/c

$\boxed{\text{Value of Stock held} \times \text{G.P\% on Sale of seller}}$ → % on Sale = becz VO stock बेचते है sale है means sale price

तो $\frac{10000 \rightarrow \text{Profit}}{100000 \rightarrow \text{sale}}$ = 10% on sale

X Ltd ——Sale——→ Y Ltd

Cost = 100000
+ Profit = 20000
Sale 120000

Purchase = 120000
↓
3/3 → closing stock - 48000

becz X Ltd take over Y Ltd

B/S: X Ltd

x stock xxx
y stock 48000
↓
इसमें Include है x का profit

→ 48000 (sale price for x Pur. for y)

तो, $48000 \times \frac{20000}{120000}$

= 8000 profit
↓
Stock Reserve or unsold stock

Refer Q17 (s.20)

T.T.R -

Taken Over value of Stock − Cost of Goods taken Over (Book value से Calculate करेंगे on old com) = Profit *

Book of Old Company

Note: Book of old company पर AS-14 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 → Cash नहीं जाते हैं चाहे Pur. Comp. takeover करे या नहीं becz नहीं की तो खुद के पास में होगी।
So, Cash transfer only when take over by pur. Comp. क्योंकि नहीं किया तो 100 के (cash) बचेंगे ज्यादा ही।

Note – debt (−) provision है तो debtor अलग लेंगे, Prov. अलग।

(ii) Transfer of Outsider liability

Outsider liabilities A/c Dr
 To Realization A/c

Note - Provision on assets side shown here

(iii) Purchase consideration due

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

(iv) Purchase consideration Receive

Cash A/c Dr
Eq. share A/c Dr (Pur. comp's) - (face + Pre.)
Pref. share A/c Dr (Pur. Comp's)
Debenture A/c Dr (Pur. Comp's)
 To Purchasing Comp. A/c.

(V) Realize assets – जो taken over नहीं की.

Cash A/c Dr
To Realization A/c

(vi) Pay – liabilities – जो taken over नहीं की

Realization A/c Dr
To Cash A/c

(vii) Expenses – Liquidation / Realization के
(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 sholders Due

Pref. share Capital A/c Dr (Book value)
Realization A/c Dr (diff)
To Pref. share holder A/c (actully payable)
To Realization A/c Cr (Diff)

transfer

Pref. share holder A/c payment
Pref. share holder A/c Dr
To Cash
To Eq. share (Pur. comp के)
To pref share (Pur. Comp के)
To debenture (Pur. Comp के)

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Realization A/c

To Eq. share holder (Profit)	by Eq. share holder (loss)

(x) Eq share holder - Due

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

Eq. share Cap. A/c Dr
Reserve & surplus A/c Dr (Indu. - Statutory Reserves)
To Eq. share holder A/c

(ii) Transfer of losses

Eq. share holder A/c Dr
To P&L A/c (Dr Bal)
To Misc. Expenditure A/c

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

Eq. share holder A/c Dr
To Cash
To Eq. share (Pur. Comp's)
To Pref. share (Pur. Comp's)
To debenture (Pur. Comp's)

TTR → Old comp. का Bank/Cash भी taken over होता है तो VO Realization में जाएगा but after (–) करके जितना cash pay कर old ने फिर last में भी balance बचेगा VO.

Refer – Ass. – Q 15
P. 5.19

Note – जो liability take over नहीं कि तो pay कर दिये
अगर Question कुछ ना बोले 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/1woAFoJl541cl4BZ_-ZlUlYFZMTzJQZze/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.
(–) outsiders liability after Rev. 2 lakhs
Net assets 8 lakhs

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

Here, the Ques. Says that → $\boxed{\text{Pref share capital} \times 12\% = 64000}$

Or

$\boxed{\text{Pref share cap} \times 12\% = \text{Net assets} \times 8\%}$

→ 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

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(RTP Nov 2019) / (RTP Nov 2023)

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

Liabilities	₹	Assets	₹
4,000 Equity shares of ₹ 100each	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

(1) 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.

(2) Y Ltd. is to take over trade payables at book value.

(3) 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 50000) takeover (−) 10% ⇒ 45000.

Sale = Cost = 60000
(+) GP = 20000
80000

$\left(\frac{20000}{80000} \times 100 = 25\% \text{ GP on Sale}\right)$

> Actual cost of Stock which was trasfred, is = (50000 × 25% = 12500)
= 50000 − 12500
= 37500

Y Ltd. ← X Ltd

50000 − 10% = 45000

Taken over value of stock → 45000.
(−) 37500 → cost of Stock which was taken over
7500

Hence, Elemenate Unrealized profit Included in Unsold Stock are → $\boxed{7500}$

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 LIABLITY)

NOTE – WHILE CALCULATING CAPTIAL EMPOLYED 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.

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.

(1 TOPIC 1 QUESTION)

To be uploaded soon.....