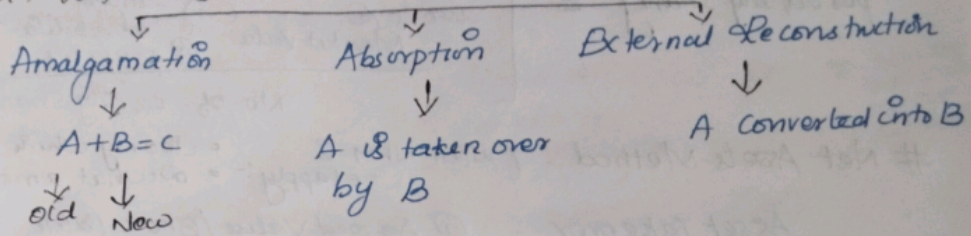


AS-14
Amalgamation of Companies (Concept Notes)

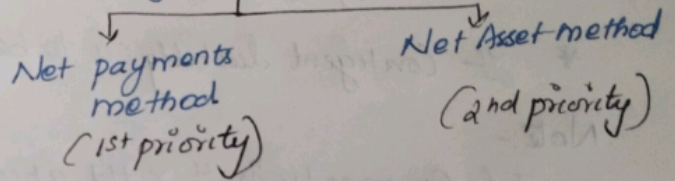
① Concept: Differences



② Amalgamation

$$\underbrace{A+B}_{\text{transferor (old co)}} = \underbrace{C}_{\text{transferee (new co)}}$$

③ purchase Consideration - If not given directly then,



Net payment Method

NPM includes all things paid to the OWNERS of the old co. (ESH, PSH) like shares, cash, debentures.

FORMAT

payment to
ESH of old co

PSH of old co

Note:- paying to debenture holder is not PC

* Swap Ratio:-

① will be directly given in Qn

② If not use Intrinsic Value data in Qn

payment IN
cash / ES / PS / deb
cash / ES / PS / deb

Workings.

$$\left(\text{Swap Ratio} \times \text{old co. Share} \right) \times \frac{\text{Fair value}}{\text{paid up par value / agreed value}}$$

PC

$$\text{①} = \left[\frac{\text{Value of New co. Share}}{\text{Value of Old co. Share}} \times \text{Old co. Shares} \right]$$

$$\text{②} = \left[\frac{\text{Old co. Shares} \times \text{Old co. IN}}{\text{New co. IN}} \right]$$

Where :-

(2)

$$\text{Intrinsic Value per equity share} = \frac{\left[\begin{array}{l} \text{Sundry assets @ Market Value} \\ (-) \text{ Sundry liabilities @ payable} \\ \text{PSH @ payable} \end{array} \right]}{\text{No. of equity shares}}$$

Net Assets Method :- (When NPM is not apply :- clearly which form paying @ what amount they paying didn't understand)

$$\frac{\begin{array}{l} \text{Asset takeover @ Agreed Value / Book Value} \\ (-) \text{ Liabilities takeover @ Agreed Value / Book Value} \end{array}}{\text{purchase consideration}}$$

- * Assets → Exclude fictitious assets
- Include recorded as well as unrecorded

* If Contingent liability is to be paid → take that also into consideration

Note:-

* If Qn mentions "X ltd absorbed / takeover / took over Y ltd" means "all assets and liabilities were taken over" whereas if Qn later mentions "Expect those not taken over" or "certain asset were sold" → exclude them.

* If Qn mentions "X ltd took over certain assets" → then include them only for purpose of calculation.

(4) In the books of old co.

eg:- oldco. B/S

ESC	Current asset
PSC	Non-current asset
R&S	Cash
long term liab	Mixed exp
Current liab	Fictitious assets

Statutory Reserve :- Compulsory maintain for certain period.

(Set off old co.)

Revaluation A/c

①	To Asset A/c (BV) Book Value	xx	By liabilities A/c (BV)	
	To Bank A/c (Liab not to, settled)	xx	By Bank A/c	xx
(Realised by selling asset to settle debt)	To expense A/c (paid by old co)	xx	By New co. (PC)	
	To PSH A/c (premium on redemption)	xx	By statutory Reserves	@ Expected Value
	By ESH	profit	By ESH	<u>Loss</u>

Note: Realisation expenses is paid by new company ⇒ No entry old co

eg: WCC 800
exp 5000
only 5000
bal 3000

Equity Shareholders A/c

②	To Misc. exp	xx	By ESC A/c	xx
	To Frustrous assets	xx	By R & S A/c	xx
	To ES from new co.	xx	By statutory Reserve	[Total - Expected Value]
	To New co (cash)	xx	By Realisation A/c (profit)	<u>b/f</u>
	To Realisation A/c (b/f) (loss)	<u>xx</u>		

Preference Shareholder A/c

③	To PS from new co	xx	By PSC A/c	xx
	To Realisation A/c b/f	<u>b/f</u>	By Realisation A/c	<u>b/f</u>

④ (Double entry effect)

Newco A/c

To Realisation A/c (pc)	By ES of new co	xx
	By ps of new co	xx
	By cash	xx

⑤

Equity shares of New co.

To Realisation A/c (pc)		
To Newco	xx	
	By EST	xx

⑥

preference shares of Newco.

To Newco	xx	
	By PSH	xx

Note: If cash of old. co is not taken over by new co. then prepare "cash A/c" separately.

Statutory Reserve includes:-

1. Workmen Compensation Reserve A/c
2. Foreign export Reserve
3. Export profit / project Reserve
4. Investment Allowance Reserve
5. Tea Development Reserve.

⑤ In the Books of New co.

purchase Method

Merger Method
(pooling of interest method)

MERGER METHOD → All 5 conditions to be satisfied :-

1. All assets & liabilities are acquired
2. they are acquired @ Book value
3. Same business is continued
4. 90% of ES holding / ESTH - should become SH of new co.
5. PC should be in form of ES/PS of new co. (only)

PURCHASE METHOD → If any of the above conditions are not fulfilled, then, it will be purchase method.

purchase method

① purchase due

Business purchase A/c dr PC
to liquidator of old co. PC

② Takeover Asset & liabilities

Asset A/c dr AV
Goodwill A/c dr (b/s) (paid more)
to liabilities AV
to Business purchase PC
to Capital Reserve (only) (bf)
(more than paid, acquired)

③ payment of PC

Liquidator of old co. A/c dr PC
to ESC Face value
to Sec prem premiums
to PSC
to cash
to Deb

Merger method

① purchase due

Business purchase A/c dr PC
to liquidator of old co A/c PC

② TO Assets & liabilities.

Asset A/c dr BV
Goodwill A/c dr bf
to liabilities BV
to Business purchase PC
to Capital Reserve (bf)
to Reserve (all) BV

③ payment of PC

Liquidator of old co A/c dr PC
to ESC Face value
to Sec prem premiums
to PSC
to cash → only for fractional shares

④ Recording of Statutory Reserves of
(new co.) Old co.

Amalgamation Adj A/c Dr
to Statutory Reserves A/c

⑤ Issue of deb to Deb. holders of
Old co.

% Deb of old co. A/c Dr
to % Deb of new co.

to prem on deb

⑥ payment of Realisation / Journal
Liquidation exp by new co.

Goodwill / Capital Reserve A/c Dr
to Cash A/c

⑦ payment of preliminary expens
Preliminary expenses A/c Dr
to Cash A/c

⑧ Unrealised profit on stock transfer
(only old co) Goodwill A/c Dr not sold in old company book it should be eliminated
to Stock A/c

⑨ Elimination of mutual Dwing
(duplicate entry)
Liability A/c Dr
to Asset A/c

⑩ No entry

Since all the reserves have been
already taken over

⑪ Issue of deb to Deb holder of
Old co.

% Deb of old co. A/c Dr
to % Deb of new co.

to prem on deb

⑫ payment of Realisation /
Liquidation exp by new co.
Goodwill / Capital Reserve A/c Dr
to Cash A/c

⑬ payment of prelini exp
Preliminary exp A/c Dr
to Cash A/c

⑭ unrealised profit on stock transfer
Goodwill A/c Dr
to Stock A/c

⑮ Elimination of mutual Dwing
Liability A/c Dr
to Asset A/c