1

AS-14

Amalgamation of Companies (Concept Notes)

(1) Concept: Differences

Amalgamation	Absorption	External Reconstruction
$A+B=C$ (old → A+B, New → C)	A is taken over by B	A converted into B

(2) Amalgamation

$A+B = C$

Transferor (old co) — Transferee (New co)

(3) purchase Consideration – If not given directly then,

- Net payments method (1st priority)
- Net Asset method (2nd priority)

Net payment Method

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

FORMAT

payment to	payment IN	Workings.
ESH of old.co	cash / ES / PS / deb	(Swap Ratio × old co. Shar) × Fair value / paid up / par value / agreed value
PSH of old.co	cash / ES / PS / deb	
		PC

Note:- paying to debentre holder is not PC

* Swap Ratio:-

(1) will be directly given in Qn = $\left[\frac{\text{Value of New co. Share}}{\text{Value of old co share}} \times \text{Old co. shares}\right]$

(2) If not use Intrinsic Value data in Qn = $\left[\frac{\text{Old co. Shares} \times \text{Old co IN}}{\text{new co. IN}}\right]$

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Where :-

②

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

Net Assets Method :- (When NPM is not apply :-
- clearly which form paying
- @ what amount they paying

didn't understand)

Asset Takeover @ Agreed Value / Book Value
(−) Liability Takeover @ Agreed Value / Book Value

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purchase consideration

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

* If Contigent 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	Misc exp
Current liab	Fictitious assets

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Statutory Reserve :- Compulsory maintain for certain period.

③ (set off old co.)

① Revaluation A/C

To Asset A/c	(BV) Book Value	By Liabilities A/c	(BV)
To Bank A/c (Liab not T/O, Takeover Settled) (Realised by Selling asset to settle debt)	xx	By Bank A/c (Assets not t/o, realised) take over	xx
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	Loss

eg: WCC 8000, expr 5000, only 5000, bal 3000

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

② Equity Shareholders A/C

To Misc. exp	xx	By ESC A/c	xx
To Fictitious 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		
To Realisation A/c (loss)	(b/f)	By Realisation A/c (profit)	b/f

③ Preference Shareholder A/C

To PS from new.co	xx	By PSC A/c	xx
To Realisation A/c	b/f	By Realisation A/c	b/f

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(4) (Double entry effect)

(4) New co 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 New co	xx	By ESH	xx

(6)

preference Shares of New co.

To New co	xx	By PSH	xx

Note:- If cash of old. co is not taken over by new co. then prepare "cash A/C" seperately.

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.

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(5) In the Books of New co. (5)

Purchase Method | Merger Method (pooling of Intrest method)

MERGER METHOD ⇒ All 5 condition to be satisfied :-

1. All assets & liabilities are acquired
2. they are acquired @ Book Value
3. Same business is contined
4. 90% of ESC holding / ESH - 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		Merger method	
(1) purchase due		(1) purchase due	
Business purchase A/c dr	PC	Business purchase A/c Dr	PC
To liquidator of old co.	PC	To liquidator of old co A/c	PC
(2) Takenover Asset & liabilites		(2) T/O Assets & liabilites.	
Asset A/c dr	AV	Asset A/c dr	BV
Goodwill A/c dr	(b/f) (paid more)	Goodwill A/c dr	bf
To liabilites	AV	To liabilites	BV
To Business purchase	PC	To Business purchase	PC
To capital Reserve (only)	(bf) (more than paid acquired)	To capital Reserve	(bf)
		To Reserve (all)	BV
(3) payment of PC		(3) payment of PC	
Liquidator of old co. A/c Dr	PC	Liquidator of old co A/c dr	PC
To ESC	Face value	To ESC	Face value
To Sec prem	premium	To Sec prem	prem
To PSC		To PSC	
To cash		To cash ⇒ only for fractional shares	
To Deb			

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

Amalgamation Adj A/C Dr
To Statutory Reserve 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 / liquidation exp by new co. (Journal adjust (a))

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 (not sold in old company book) it should be eliminated (only G/W)

Goodwill A/C Dr
To stock A/c

(9) Elimination of mutual owings (Duplicate entry)

Liability A/c Dr
To asset A/C

(6)

No entry

Since all the reserves have been already taken over

(5) 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

(6) payment of Realisation / liquidation exp by new co.

Goodwill / capital Reserve A/c Dr
To cash A/c

(7) payment of prelim exp

preliminary exp A/c Dr
To cash A/C

(8) unrealised profit on stock transfer

Goodwill A/C Dr
To Stock A/c.

(9) Elimination of mutual owings

Liability A/c Dr
To asset A/c

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