

# One Day before Question Bank

(A perfect revision solution...)

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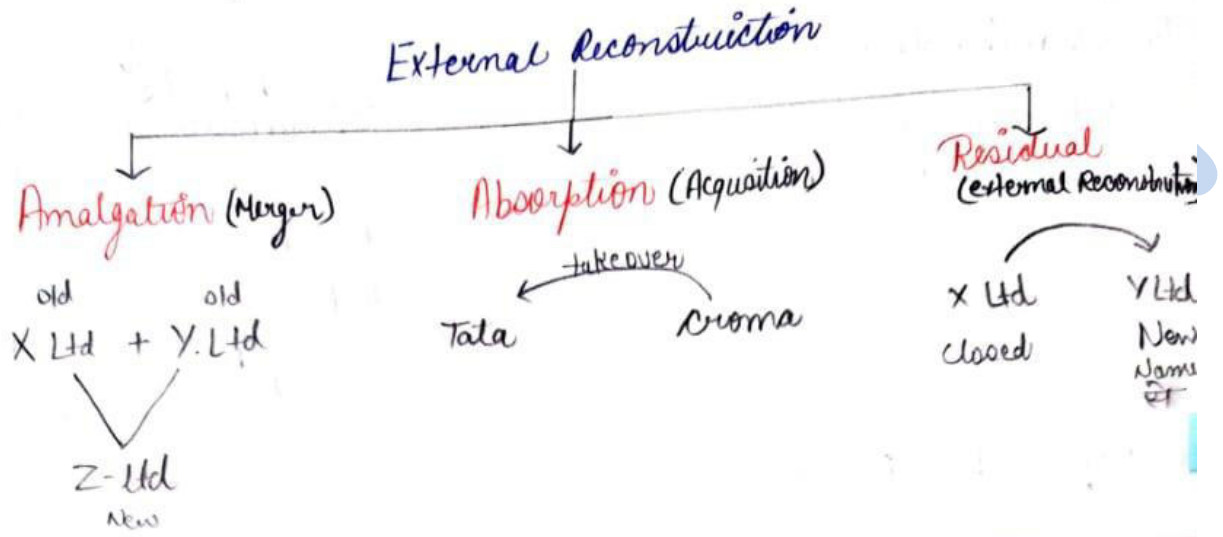




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# AS-14 AMALGAMATION

## Amalgamation - AS-14



Amalgamation	X Ltd + Y Ltd = Z Ltd	Old Vendor Transferees X Ltd, Y Ltd	Purchasing Transferee Z Ltd
Absorption	Tata ← takeover → Crroma	Crroma	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 → by purchasing company!

Equity preference OR debenture

To Shareholder of old comp.  
 Eq. / pref.

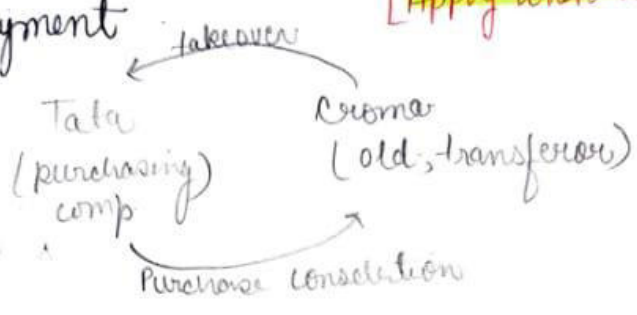
ITR - old IT '0' 31/12 transferor IT IT '0'

# 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].

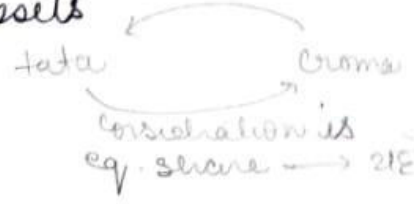
## Example - Net payment



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

(bez share, security, Assets, cash etc old company's shareholder in profit 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



# 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 फर्च 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 Shareholders (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  
 एट 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.

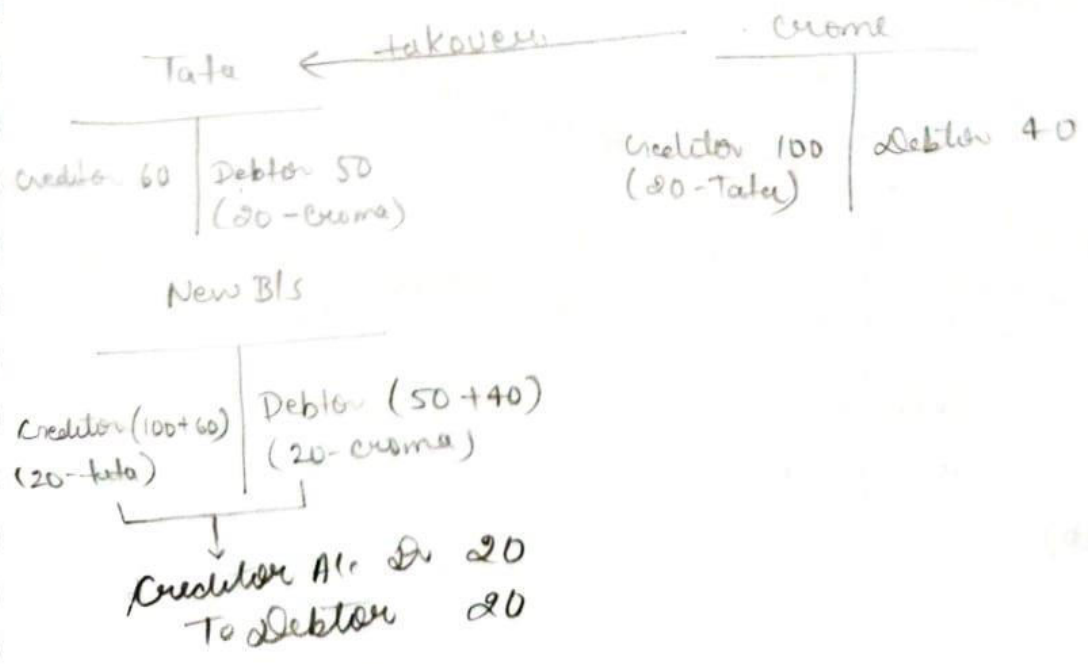
6. Write off / Pay Liquidation expenses of old Comp.

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. 37711 तो VO.  
 no. 2. C.R. 37711 तो 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 Reserve  $\times \times \times$   
 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  $\xrightarrow{\text{Sale}}$  Y Ltd  
 Cost = 100000  
 + Profit = 20000  
 Sale = 120000  
 Purchase = 120000  
 ↓  
 closing Stock = 48000

← becz X Ltd takeover Y Ltd

B/S: Y Ltd  
 X Stock  $\times \times \times$   
 Y Stock 48000  
 ↓  
 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 bec2 नही की तो खुद ही ठीक-ठीक होना

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

Note -- debt है तो debitor अलग में  
(-) provision है तो debitor अलग में  
Per. 370/1

## (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. '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 - 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 वो Realization में आता है but after (-) उसे जितना cash pay कर old में फिर last में भी balance आता है वो।

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](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](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 –  $50000 \times 30$  (\*IN GENERAL CASE)

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

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

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

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

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

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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