Amalgamation OF Companies (AS 14)

1) Amalgamation means Acquisitions, Mergers, absorption (or) Take over OF another Company.

2) Merger = When Two or more Companies decided to merge their Business & Form a New Company.

Vodafone + idea = VI

Under Merger Scheme, SH OF existing Companies will get equal Power (Control) in the new Company.

3) Acquisition / Take over (absorption) :- Types.

① Physical Take over

Where acquiree Co. is Closed (wound up) its Assets / Liabilities are taken by Acquirer Co.

AS 14

$A + B = A$

② Holding - Subsidiary relation

One Company acquires more than 50% OF Equity Shares OF another Company

AS 21

4) Amalgamation also covers "External Reconstruction"

$A = (B)_{New}$

5) There are two entities (Parties) in Amalgamation

Transferor (T'ror) → An entity whose Business (Assets & Liabilities) is transferred (SOLD)

Transferee (T'ree) → An entity who acquires the Business (Asset / Liab.)

6) T'ree shall discharge Purchase Consideration for Purchase of Business to SH of (Equity + Pref.) T'ror.

7) PC can be discharged in any form such as:–

- Cash
- Equity shares of Tree
- Pref. shares of Tree
- Debentures of Tree
- or in Kind (property Transfer)

8) Tree Co. Will get the Business (i.e Net Assets) OF Tror Co.

Net Assets :- a) Assets
(-) Liabilities

b) ESC + PSC + R&S BOOK Value

9) Accounting OF Amalgamation :-

We Will Cover The Accounting For Both Entities :-

1) In the Books OF Tree (AS 14)
2) In the Books of Tror.

10) BOOKS OF Tree Co.

Tree Co. Shall discharge the PC to the SH OF Tror Co.

↓

How to Calculate PC ?

↓

PC Shall always be Based on Fair Values (Market Values)

Case 1 :- D Ltd. acquired J Ltd's Business
D Ltd shall Discharge PC in the Form OF Equity Shares as per following Financial position OF J Ltd.

Balance Sheet OF J Ltd

ESC (10/-)	2,00,000	Non current Assets	12,00,000
R&S	5,00,000		
Liabilities	13,00,000	Current Assets	8,00,000
	20 lacs.		20 lacs.

Market Values :- Non Current Assets = 30 lacs.
Current Assets = 10 lacs.
Liabilities are at proper Value Subject to additional GST Liability OF 50,000.

Calculate PC amount & no. OF shares to be discharged by D Ltd if MP per Share OF D Ltd is 20/- per share.

Solution

1 — 20
? — 2650000

PC shall be Calculated Considering Market Values OF Assets & Liab. OF J Ltd :-

N. Curr. Assets 30 lacs. Fv
Current Assets 10 lacs. Fv
(−) Liabilities 13 lacs.
(−) GST Liab. 0.5 lacs.

PC Amt. = 26.50 lacs.

Pc in Form of No. of Shares :-

$\frac{2650000}{20}$ = 132500 no. to be issued by D Ltd.

No.	Amt.
1	20/-
?	2650000/-

Case 2 :- D Ltd. acquired J Ltd's Business

J Ltd. B/S

ESC (10)	2 lacs.	N. C. Assets	25 lacs.
R&S	20 lacs.		
Liability	18 lacs.	C. Assets	15 lacs.

D shall issue Equity Shares for PC whose Face value is 10/- to be issued at 20% Premium.
12/-
There is an Unrecorded Liab. of J Ltd of 100000/- also to be taken over.

Calculate PC

Solution Here Fair Values are not given Hence We have to assume Books Values as Fair Values.

PC = N.C Assets 25,00,000
C. Assets 15,00,000
(-) Liab. (18,00,000)
(-) Unrecorded Liab. (1,00,000)

PC amt = 21,00,000

$$PC (no.) = \frac{21,00,000}{12} = 1,75,000 \text{ no.}$$

Case 3:- D Ltd. acquired J Ltd. as per following B/S (Tar)

30000 no. ESC (10)	3,00,000	N. Curr. Asset	20,00,000
R&S	5,00,000	Current Assets	10,00,000
Liabilities	22,00,000		
	30 lacs.		30 lacs.

PC to be discharged by D in the Form of shares only.

	D	J
MP Per share	50/-	60/-

Sol) :-

Here FV of Assets/Liab. are not given but MP per share of Tror Co. is given. Hence, PC can be calculated at Fair Value as under :-

$$\underset{\text{(Tror's no. of Shares)}}{30000} \times \underset{\text{(MP of Tror)}}{60/-} = \underset{\text{PC}}{18,00,000}$$

$$\text{No. of Shares in PC to be issued by D} = \frac{1800000}{50} = 36,000$$

Case 4 :- D Ltd. acquired J Ltd

J Ltd. B/S

(10/-) ESC	5 lac.	L&B	18 lac.
R&S	15 lac.	Invent	12 lac.
Liab.	20 lac.	Other Ass.	10 lac.
	40		40

D Ltd shall issue Shares to J as PC in 3 : 4

MP per Share of D is 70/-

Sol) :-

$$\underset{(\text{no.})}{Pc} \Rightarrow \frac{50000}{4} \times 3 = 37500 \text{ no.}$$

$$Pc \text{ amt} \Rightarrow \underset{\text{issued by D}}{37500 \text{ no.}} \times \underset{\text{D's MP}}{70/-} = 26,25,000$$

Case 5 :- Pc is based on Ex. Ratio as well as Net Assets Values

D Ltd. acquired Business of J Ltd

B/S of J Ltd.

(10/-) ESC	6,00,000	L&B	22,00,000
R&S	27,00,000	P&M	15,00,000
Liabilities	34,00,000	Current Assets	30,00,000
	67,00,000		67,00,000

a) Goodwill Value of J Ltd is 5,00,00 also to be Considered.

b) MV of L&B & P&M are 28 lacs. & 12 lacs. respectively.

c) D Ltd. shall issue 4 Shares for each of 6 Shares Held by SH of J Ltd

& remaining amt. to be paid in Cash.

d) MP per Share of D is 80/-

Solution

Total PC => Net Asset Values,

(-) Ex. Ratio PC

Cash

Net Assets (FV)

L&B = 28 lacs.
P&M = 12 lacs.
Goodwill = 5 lacs.
CA = 30 lacs.
(-) Liab = 34 lacs.

Total PC = 41,00,000

discharge in Share as per Ex. Ratio

&

Remaining Bal. in Cash i.e 9,00,000

$60000 \times \frac{4}{6}$

40000 no. (D's shares)
× 80/-

32,00,000

Note:- If the statement "Remaining to be paid in Cash" is not given in the same situation

↓

Calculate the PC as per Ex. Ratio only even though MV of Assets/Liab. are given

Case 6:- PC based on Intrinsic Value

Balance Sheets

	D Tree	J Tree		D Tree	J Tree
ESC (10/-)	10,00,000	7,00,000	L&B	25,00,000	32,00,000
			P&M	16,00,000	20,00,000
R&S	20,00,000	15,00,000	CA	40,00,000	10,00,000
PSC	5,00,000	4,00,000			
Liability	46,00,000	36,00,000			
	81	62		81	62

1) D acquired J & becomes DJ

2) D shall issue shares to equity SH of J based on Intrinsic Values of shares of Both Companies.

3) MV of Assets/Liab. :-

	D (Tree)	J (Tree)
Land Building	20% Higher	20% Lower
P&M	30% Higher	10% Higher

4) Pc to PSH of J Ltd. will be Pref. shares of D of ₹ 6,00,000

5) Goodwill of J Ltd is 3,00,000

Calculate Total PC

Solution

Intrinsic Value → Net Asset per share should be Calculated as under :—

	All Assets (including Goodwill or Unrecorded Assets)	→ FV / BV (if FV not given)
(−)	All Liabilities (including Unrecorded Liabilities)	→ (FV / BV)
(−)	Pc to PSH	(xxx)
	Net Assets available for ESH	→ xxx
÷	No. of Shares	÷ xx
		IV Per Share

IV Per Share → Deemed MP per Share (Jugaadu MP)

Particulars	D	J
L&B	30,00,000	25,60,000
P&M	20,80,000	22,00,000
CA	40,00,000	10,00,000
Goodwill	—	3,00,000
(-) Liabilities	(46,00,000)	(36,00,000)
(-) Pref. Sh. Holders	(5,00,000)	(6,00,000)
Net Asset available For ESH	39,80,000	18,60,000
	÷	÷
	1,00,000	70000
IV per share	39.8/-	26.57/-
	D	J

IV → MP

PC by D Ltd ⇒ 70000 × 26.57 = $\frac{1860000}{39.8}$

= 46733 no.

× 39.80/-

18,59,973

Remaining for fractional Shares to be paid in Cash = 27/- (1860000 − 1859973)

Conclusion:- Case(3) & Case(6) are almost Similar
Only difference is :-

a) In Case 3, MP per Share was available

b) But in Case 6, MP per Share (i.e IV per Share) was first Calculated

Case-7 PC Shares based on Profitability of Entities.

Tree Co. shall issue Shares to Tror Co.
C Ltd. is Tree, A Ltd & B Ltd have decided to merge their Business

C Ltd. Shall issue 30,000 Shares in total to SH of A & B. Distribution Shall be made in proportion of their Avg. profit of Last 3 years.

	A	B
1	500000	350000
2	750000	6,40,000
3	1300000	11,10,000

C Ltd. shall issue its 10/- share at 50% premium
Calculate PC for Both.

Sol^n):-

Avg profits :-

A Ltd. $= \frac{25,50,000}{3} = 8,50,000$

B Ltd. $= \frac{21,00,000}{3} = 7,00,000$

Distribution of PC :-

To SH of A $= 30,000 \times \frac{850}{850+700} = 16452$ no.
$\times 15$
PC $=$ 2,46,780/-

To SH of B $= 30000 \times \frac{700}{850+700} = 13548$ no.
$\times 15$
PC $=$ 2,03,220/-

Case-8 A Ltd. acquired B Ltd. PC will be given as Under :-

a) 15,000 no. of shares to be issued
MP per share of A Ltd. 25/-

b) Also, A Ltd will issue 8% pref. shares of 100 each of such adequet amount which will be sufficient to cover their Income Expectation @ 10% on their Existing Capital Employed.
Net Asset

B/S B Ltd

ESC	10 lacs.	PPE	21,00,00
R&S	16 lac		
Liabilities	10 lac.	CA	15,00,000
	36 lacs		36 lacs.

FV of PPE & CA is 25 lacs & 18 lacs.

Sol):-

Calculation of Capital Employed (Net Asset)

PPE = 25,00,000
CA = 18,00,000
Liab. = (10,00,000)

Cap. Emp. = 33,00,000

Income Expectation = 330000
@ 10%

(Every year they will get Pref. Divd of 330000 @ 8% return)

Payment to	Payment in	Working	Amt.
ESH of Tror	Eq Shares of Tree	15000 × 25	3,75,000
ESH of Tror	8% Pref. Shares	$\left(\frac{330000}{8\%}\right) \div 100$ 41250 no.	41,25,000
			45,00,000

Case 9 :- D Ltd. acquired Business of J Ltd. on the basis of Intrinsic Values of Both Companies

	D	J
IV (Deemed MP)	125/-	180/-

No. of Shares of J Ltd are 90000 no.

PC shares to be issued by D @ Face value only.

FV = 100/-

Paymt to	Paymt in	Working	Amt.
ESH of Trar	Eq. shares of Tree	$\frac{90000 \times 180}{125}$ 129600 no. × 100/-	1,29,60,000

Books of Tree Co. (Purchaser)

(AS 14)

↓

Two Method of Accounting

If Amalgamation is in the nature of Purchase

↓

apply "Purchase method"

If Amalgamation is in the nature of Merger

↓

apply "Pooling of Interest method"

1) Amalgamation in the nature of Purchase :-

Here the Intension of Tree Co. is to purchase the Business of Tror without giving them equal powers of decision making.

↓

How? → discharging PC to the SH in the form of Cash (or) pref. Shares (or) debentures But not in equity Shares (or) Very Low % of equity shares

2) Amalgamation in the Nature of Merger :-

Here the Intension is to Merge the Business of Both Companies by giving equal rights to the SH of Tror Co.

Both SH Shall work together & take decisions together

(Saath me milkar Kaam Karenge)

If below 5 Conditions are Satisfied then the amalgamation shall be treated as Merger :- VV Imp.

1) All Assets & All Liab. of Tror Co. must be taken over by Tree Co.
(Recorded as well as UnRecorded)

2) Equity Shareholders of Tror Co. holding atleast 90% of Total equal shares (external SH) must agree to become the ESH of Tree Co.

3) PC to ESH of Tror Co. must be discharged
* in the Form of Equity Shares of Tree Co. only.
(However, Cash Can be given for Only for Fractional Shares)

4) All Assets & Liabilities taken over must be recorded at **Same Book Values**

(However, to apply Uniform accounting policy on Assets/Liab. of Tror Co., these Assets/Liab. can be adjusted & recorded at different value)

* PC can still be calculated at fair value only.

5) Business of Tror Co. must be carried on by Tree Co. after merger.

(Intention to carry on business must be checked)

Amalgamation in the Nature of Purchase

- Not mandatory to take over All Assets/Liab. of Tror.
  (All Assets/Liab. may or may not be taken over)
- Recording of Assets/Liab. taken over
  - I^{st} priority = always fair value
  - II^{nd} priority = Book Value if FV are missing
- Discharge of PC
  - may be in any form (not necessary in equity shares)
- Only Assets/Liab. of Tror are taken over.
  R&S of Tror shall not be recorded by Tree
  - Except Statutory Reserves of Tror

ACCOUNTING ENTRIES (as per AS 14) in the Books of Transferee Company

In the Nature of Purchase (Purchase Method)	In the Nature of Merger (Pooling of Interest Method)
Business Purchase A/c (PC) Dr. To Liq. of Transferor Co. A/c (PC)	Business ~~Merger~~ Purchase A/c (PC) Dr. To Liq. of Transferor Co. A/c (PC)
Sundry Assets A/c (Agreed value) Dr. Goodwill A/c (Bal. Fig) Dr. To Liabilities A/c (Payable Value) settlem. To Business Purchases A/c To CR (Bal. Fig) 40	All Sundry Assets A/c (Book value) Dr. Gen. Res or P&L A/c (Bal. Fig) Dr. To All Liabilities A/c (Payable Value)* To Business Merger A/c (PC) To Reserves and Surplus (Book value) To GR/P&L
Payment of PC: Liquidator A/c Dr. To Cash A/c To Equity Share Capital A/c To Pref. Share Capital A/c	**Payment of PC:** Liquidator A/c Dr. To Cash A/c To Equity Share Capital A/c To Pref. Share Capital A/c

To Security Premium A/c	To Security Premium A/c
Cancellation of Receivables and Payables Payables A/c Dr. To Receivables A/c	**Cancellation of Receivables and Payables** Payables A/c Dr. To Receivables A/c
For Payment of Liability: (settlement Liability A/c (e.g., Debenture holder's A/c) Dr. To Cash A/c To New Liability A/c (Debentures are taken over at agreed value and settled by issue of new debentures in above entry)	**For Payment of Liability:** Liability A/c (e.g., Debenture holder's A/c) Dr. To Cash A/c To New Liability A/c (Debentures are taken over at agreed value and settled by issue of new debentures in above entry)
For Payment of Expenses/Unrecorded Liability: CR / Goodwill A/c Dr. To Cash A/c (Use Capital Reserve first if available then Goodwill)	**For Payment of Expenses/Unrecorded Liability:** Gen. Res. or P&L A/c Dr. To Cash A/c P&L 1st priority GR 2nd priority
For creation of Statutory Reserves: Amalgamation Adjustment Reserve Dr. To Statutory Reserves A/c (Following are statutory reserves: 1. Invst. Allowance Res. 2. Export Profit Res. 3. Foreign Project Res. 4. Tea Development Res. 5. Shipping Res. 6. Site Restoration Fund ***Amalg. Adjust. Reserve should be shown as a separate line item under the head R & S**	**No Statutory reserve to be created separately, since they are already recorded in 2nd Entry above.**
For Unrealised Profit: Upstream Transaction: Goodwill A/c Dr. To Stock A/c Downstream Transaction: General Reserve A/c Dr. To Stock A/c	**For Unrealised Profit:** Upstream and Downstream Transaction: General Reserve A/c Dr. To Stock A/c

Calculation OF Goodwill

Methods OF Calculating Goodwill for Amalgamation

Method 1 :- Avg. Profit method

Goodwill is 4 years purchase OF Avg. Profit OF Last 5 years of profits

$$\text{Goodwill} = 4 \times \underbrace{\text{Avg. Profit}}_{\text{Est. Future profit}}$$

	1	2	3	4	5
Past profits	XXX	XXX	XXX	XXX	XXX
(+/-) Elimination OF Abnormal Losses/(Gains)	Loss +	Gain (-)			
(+/-) any other non-recurring exp/Income					
(-) Non Trade Incomes	(XX)	(XX)	(XX)	(XX)	(XX)
Adjusted past profits	XX	XX	XX	XX	XX

$\underbrace{\text{Adjusted past profits}}_{\text{Simple (or) Weighted Avg.}}$

Method 2 :- Super Profit method :-

Goodwill is 3 years purchase of SP

$$\text{Goodwill} = SP \times 3$$

$$SP = \underset{152000}{\text{Avg. Profit}} - \overset{90000}{\text{Normal profit}}$$

$$\text{Normal Profit} = \underset{\text{Trav. } 900000}{\text{Capital Employed}} (\times) \text{ NRR}(\%) \ 10\%$$

Method 3 :- Capitalisation method

(Capitalisation of SP method)

$$\text{Goodwill} = \frac{\text{Avg. Profit}}{\text{NRR}(\%)} - \text{Actual Capital employed}$$

itna Capital Lagana Padega − itna Capital actually Lagaya Hai

Note :- How to Calculate Capital Employed for the purpose of Goodwill

All Assets (excluding Non Trade Investments & Fictitious Assets)	xxx	(FV/BV)
(−) All Liabilities	—	as per existing B/S
Capital Employed		

not the Settlement value

Elimination of Unrealised Profits on Unsold Stock Under Inter Co. Transactions

- Find out Unsold Goods Value with Trор or Tree Came from each other
- Now Calculate Unrealised profit on Such Unsold Stock based on Margin (%) given
- Treatment of Unrealised profit
  - Jisne profit earn Kiya uske Reserves se eliminate Karo agar uske R&S Tree k pass Hai toh..... Otherwise Goodwill/CR should be Debited
    - if Tree earned the profit → R&S To Stock
    - if Tror earned the profit → Check nature of Amalgamation
      - Purchase → Since Tree does not have R&S of Tror Hence :- CR/Goodwill Dr. To Stock
      - Merger → R&S To Stock

Must Refer Example no. 20 & 21

Example :- Tree SOLD goods to Tror

Total Cost = 2,80,000

Total SP = 3,50,000

UnSOLD goods with Tror out of above = 1,20,000

Tree took over the Business of Tror & Inventory is taken over at 20% Lesser Value

Solution :-

Unrealised profit = $\frac{70000}{350000} \times 120000 = 24,000$

24000 should be eliminated from Inventory of 1,20,000 & after elimination Inventory will be at 96,000

However, Tree Co. took over Inventory at 20% lesser value i.e at 120000 - 20% = 96000

Conclusion :- No need to eliminate UP

Case 2 :- Inventory took over at 10% Lesser Value

Here Inventory took over at 108000

But actual Cost of Inventory 96000

Unrealised profit to be eliminated = 12000

Case 3 :- Inventory took over at 20% Higher Value

Maximum Unrealised profit to be Eliminated is 24000

First Inventory is taken over at 144000 in 2nd entry.

Now Eliminate UP only to the extent of 24000

Hence Net Inventory Balance in B/S

Inventory 144000 (−) UP 24000	120000

Amalgamation in the nature of Merger (Accounting)

1) Assets/Liab. should be recorded at BV except when Desn taken over at any other value (Settlement Value)

2) Unrecorded Assets/Liab. shall also be recorded.

3) In 2nd entry the difference shall be treated as under :-

Debit Side
↓
GR shall be Debited First if it is available
Otherwise P&L

Credit Side
↓
P&L a/c shall be taken First
then GR shall be taken for the Balance Amt.

Asset Dr.
To Liab.
To B/P
To SP
To RR
To CR
To P&L
To GR (B/F)

4) How to identify the difference in 2nd entry?
↓
Compare Total PC value with Total Share Capital of Tror

PC = Sh. Capital
↓
Here all Reserves of Tror shall be Created at same value

PC > SC
↓
Here lower value of Reserves will be Created (GR/P&L)

PC < SC
↓
Here more Reserves will be Created (GR/P&L)

Example :-

Tror B/s

ESC (10)	10 lacs.	PPE	16 lacs.
SP	1 lac		
EPR	2 lacs.	CA	14 lacs.
GR	5 lacs.		
10% Debn	12 lacs.		
	30		30 lacs.

a) Pc in Form of Shares = 17 lacs.

b) 10% Debn Holders will be given New 8% Debn to maintain Same Interest.

Sol) :- 1) Settlement Value of Debn $\Rightarrow \frac{120000}{8\%} = 15$ lacs

2nd entry :-

PPE a/c Dr. 16 lacs.
CA a/c Dr. 14 lacs.
P&L a/c Dr. 5 lacs.
To Debn Holders 15 lacs.
To B/P 17 lacs.
To SP 1 lac
To EPR 2 lacs.

because GR Can not be negetive

Minimum Maintain

PC = 17
Sh. Cap = 10

7 lacs. reserves को Create Karna Hai

GR (Tror) 5 Nahi Kiya

3 Mandatory Create Kiya

P&L 5 lacs. reversal

Real'is.

To Asset BV	By Liab. BV
To PSH 100000	By Tree PC
To Cash Liab paid	By Cash Asset S/D
To Cash exp.	By ESH (Loss)
To ESH (Gain)	

Cash

PSH A/c

To Pref Shares 400000	By PSC 300000 (B/s wala)
	By Real's 100000

ESH

To Fic. Ass.	By ESC
To Real. (Loss)	By Reserves.
To Cash	By Real. (Gain)
To eq Sh.	

Tree a/c

To Real PC	By Pref Sh. 400000
	By eq Sh.
	By Cash

BOOKS OF Tree Co. (Dissolution)

Step 1:- Close all Assets & Liabilities to Realisation A/c at BV

Cash/Bank shall be Closed only if taken over otherwise make a Separate account.

Close Capitals & R&S to Shareholders A/c (PSH & ESH)

(B/s को खाली Karo)

Step 2:- Purchase Consideration shall be accrued

Tree a/c Dr.
To Realisation

(Pc को due करो)

Step 3:- Pc shall be received

Shr 50000 → 4 / 1

Cash Dr.
Shares/Deb Dr. → 5
To Tree Co.

(Pc को Receive करो)

Step 4:- Dischare Pc to PSH First & transfer the Difference to Realisation A/c

(PSH को Pc pay करते)

Step 5:- those Assets/Liab. which are not taken over by Tree shall be settled in Cash by Tror along with Expenses :-

Cash Dr.
To Realisation
(Sale of Asset)

Realisation Dr.
To Cash
(Payment of Liab / Exp.)

Step 6:- Close Realisation A/c & transfer Gain/Loss to ESH A/c

(Realisation को Close करते)

Step 7:- Pc to be discharged to ESH along with Cash/Bank Balance

(Pc को discharge करते ESH को)

Final Balance OF ESH = Pc for ESH (+) Cash available if any

Important Key Points to Solve the Question

1) Whenever any Question is silent about taking over of any Asset/Liab., always assume that all such Assets/Liab. are taken over & recorded in the Books of Tree Co.

2) Debtors are taken over at BV subject to a provision of 5% (or)

Debtors are taken at 5% lesser than BV

Both Statements have same interpretation & we will always create provision separately & Record Debtors at Gross Value.

3) In Amalgamation in the nature of Merger, Unrecorded Assets/Liab. can also be taken over & recorded at their agreed values.

4) Amalg. in the of Marger => All R&S of Tror shall become R&S of Tree & taken in the following sequence :-

a) Sec. premium
b) Revaluation Reserve
c) Capital Reserve
d) any other Reserve (except GR & P&L)
e) GR
f) P&L (sabse last me)

Note:- any Adjustment of taken over shall be reflected in P&L First & then GR.

5) Debn of Tror shall always be taken over at Settlement Value in both methods (Purchase as well as merger)

* Settlement Value can be at premium (or) at Discount (or) at Same Book Value.

6) Whenever PC is Calculated by Net Assets then Debn shall be Considered always at Settlement Value.
Also in 2nd entry of Assets/Liabilities, Debn will be recorded at Settlement Value.

* Treat BOOK Value as Settlement Value if not Separately given.

7) Inter Co. Debts are not Considered in PC Calculation (Only given effect in B/S)

8) When there are more than 1 Tror Companies then while passing 2nd Entry of Assets & Liability, Always pass separate entries for all Tror Companies. So that Goodwill & CR of each Tror can be identified.

9) Treatment of amalgamation Expenses borne by Tree Co. (in the Nature of purchase)

↓

Expense shall be first set off with CR balance available if any.

If there is insufficient CR Balance or No CR Balance then Goodwill shall be Debited.

CR a/c Dr. (to the extent available Bal.)

Goodwill a/c Dr. → (2nd priority)

To Bank

10) Final B/S of Tree after Amalgamat must show Goodwill & CR separately, if there are two transferor Co. with one having Goodwill & another having CR.

11) If Question ask to w/off (or amortise) the Goodwill after amalgamation then Following Entry shall be passed :-

CR a/c Dr. (if available) → Tree wala

P&L (or) GR Dr.

To Goodwill

12) Calculation OF Net Assets / Capital Employed

For the purpose OF Goodwill

All Assets — Fv / BV including unrecorded Asset (except Non Trade Invst.) & Fic. Asset & Existing Goodwill

→ Debtors less provision

(-) All Liabilities — (Existing Bv)

(-) any Unrecorded Liab. — (XX)

C/Emp.

For the purpose OF PC

Pc is based on Intrinsic Value (or) Net Assets Value

All Assets — Fv / BV
(including Non Trade Invst)
excluding Fic. Asset
including Unrecorded Asset

(+) Goodwill — XXX
Calculated / or Existing Goodwill

(-) all Liabilities — Settlement Value

(-) PC to PSH — XXX

Net Asset / CE

Pc is based on Income Expectation such as 10% return on C/E

See Next page

Capital Employed when PC is based on Income Expectation OF SH on their Existing C/E OF Business

All Assets (including Unrecorded & Non Trade Invst)	→	Fr/BV XXX
(-) All Liabilities (including Unrecorded Liab)	→	at Existing values.
(+) Goodwill if any	→	XXX
(-) Payable to PSH	→	XXX
		Capital Employed For ESH

13) When Goodwill is given For Tree & Tror, it is given For Calculation OF PC.
While preparing Final B/s of Tree, Goodwill of Tror shall be recorded. Since it is purchased goodwill.

But Tree's own goodwill even though given in Question Can not be shown in B/s as it is a Self generated.

Tree's Goodwill is given so that IV per share of Tree can be Calculated.

14) Irrespective of any Accounting method (Purchase or merger) PC Calculation would be Same.
It means, while Calculating PC it shall always reflect the fair value even though Amalgamation is in the nature of Merger.

15) Also, Settlement of Debn Holders of Tror at different value other than Book value may happen under Amalgamation in the nature of merger.
Hence, in 2nd entry of A/c recording:
Debn may be recorded at Settlement Value instead of Book value.

16) If Mode of Settlement of Debentureholders of Tror is not given then Debentureholders shall always be settled by issue of Same Debenture with Same Interest Rate.

17) Fictitious Asset such as "Cost of Issue of Debn" or "Preliminary exp" (or) "Pre incorporation Exp" of Tror Co. shall always be w/off from P&L a/c of Tror. Co. before take over.
(Refer Q 302 B)

18) Consider these adjustment & with Following A/c Treatment :-

① Debentures of Troy (200000) shall be discharge at 5% discount by issue of New Debenture at par

Settlement Value = 200000 - 5% = 190000

New Debn of 190000 at par to be issued

② Debentures of Troy (200000) Shall be given New Debenture of that amt which is sufficient to discharge at 5% discount after take over

Settlement Value = 2,00,000

New Debn Shall be issued at 95/- per Debn

19) If Goodwill is appearing in B/S of Troy Co. Then Should we Consider it or not ?

Calculation of Net Asset / Cap. Emp For Calculating Goodwill

Calculation of Net Assets For the Purpose of PC

If PC is based on Intrinsic Value (or)

If Selected Assets & Liabilities

Do not take existing goodwill here

All Assets/Liab taken over
↓
Take Existing Goodwill also in Net Asset if there is No new Goodwill (Refer Q402)

Are taken over (not all)
↓
Do not take Existing goodwill (Refer Class Ex Pg.97)

* New Goodwill which is required to be Calculated shall always be taken for Net Assets / PC Calculation.

20) Workmen Compensation Reserve
↓
B/S (Extract) (Tror)

Work Comp. Reserve (Actual Liab. 5000)	8000

Tror Books

a) In Realisation A/c Close W.C. Liab of 5000

b) In ESH A/c Close 3000 of Reserve

Tree Books

a) Tree shall take over 5000 of Liability

b) If PC is required as per N Assets

then this 5000 Liab. shall be Considered

c) If Amalg. in the nature of merger
↓
then W.C. Reserve of 3000 should be maintained in 2nd entry

21) Liquidation exp. given But not mentioned that which Company will bear, always assume it is borne by Tror.

22) If any Asset is not taken over then what will be the treatment in the Books of Tror?

It is an Intangible Asset

Separate Sale Value is given
↓
Realisation A/c

To Asset BV	By Cash SV

Separate Sale Value is not given
↓
Realis. A/c

To Asset BV	—

It is a Tangible Asset

Separate SV is given

Sale Value is not given

Realisation

To Asset BV	By Cash SV/BV

Trer. B/s

7% Debn	1400000

Tree Co. shall issue New 10% Debn to DebnHolder OF Trer OF such amt so as to maintain same OF Interest.

$1400000 \times 7\% = 98000$

New Debn @ 10% should be $\Rightarrow \frac{98000}{10\%}$

$\Rightarrow \boxed{980000}$

Settlement Value

Trer. B/s

7% Debn	1400000

DebnHolder shall be discharged at 20% premium by issue OF New Debn at Premium 25% (FV 100)

Settlement Value = 1680000 ÷ 125

13440 no.

2ndent.

To Debn Holder. 190000

Debn Holder. 190000

To New Debn 190000

2nd

To Debn Hold. 200000

Debn Hold. 200000

Discount 10525

To New Debn (FV) 210500

To Cash 25

$$\frac{200000}{95}$$

2105 . 26

no.

0.26 × 95