

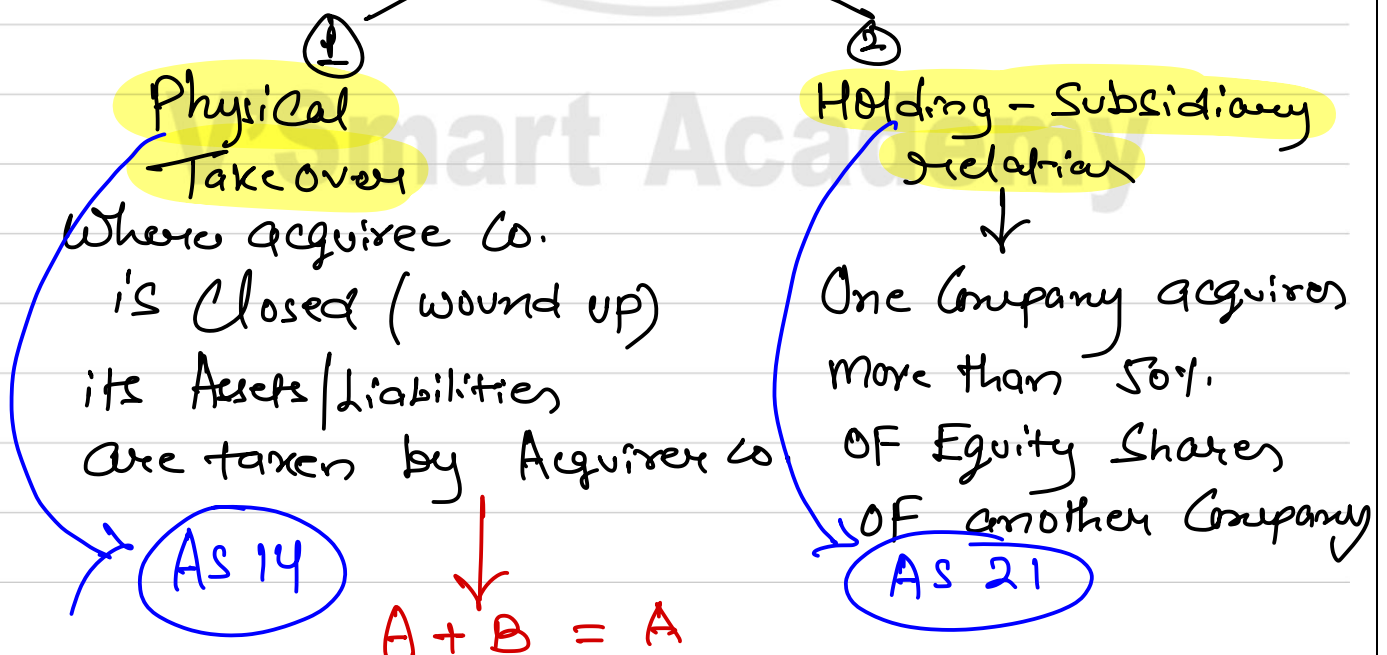
Amalgamation of Companies (AS 14)

- 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.

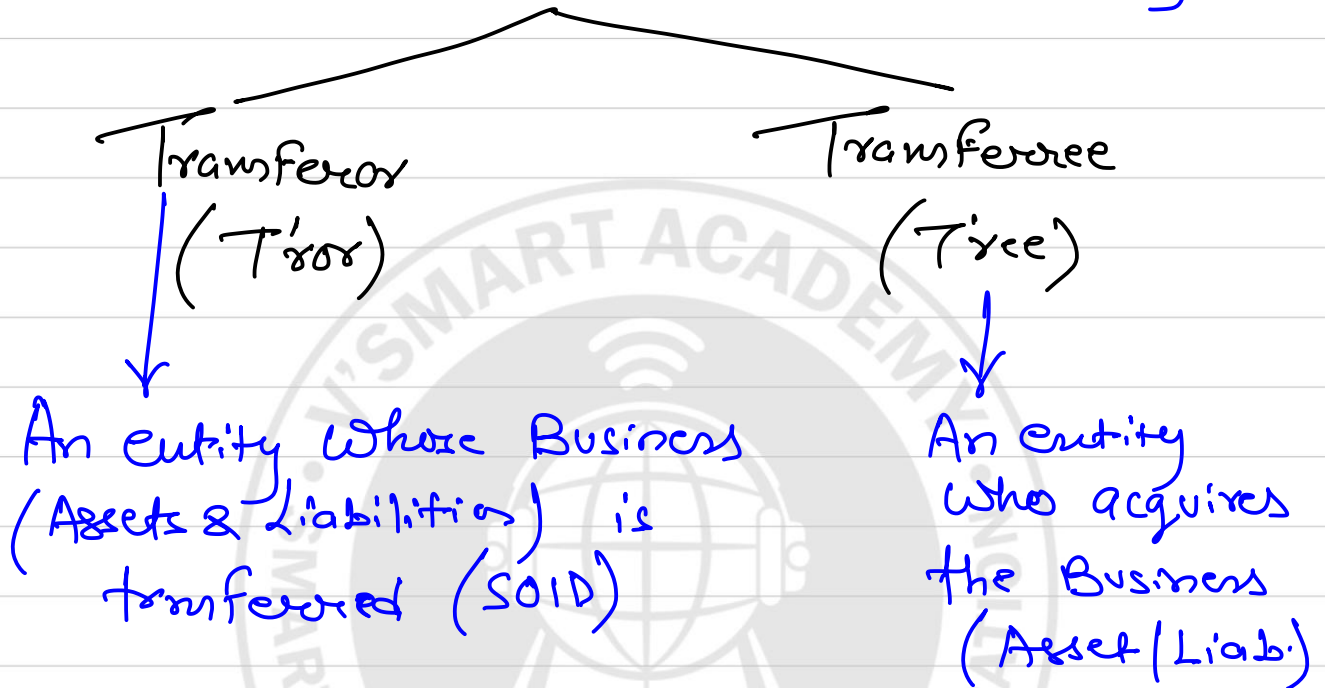
3) Acquisition / Take over :- Types. (absorption)



4) Amalgamation also covers "External Reconstruction"

$$A = (B)_{\text{New}}$$

5) There are two Entities (Parties) in Amalgamation



6) T'xee shall discharge Purchase Consideration for purchase of business to SH of T'xor. (Equity + Pref.)

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

Cash

Equity shares of T'xee

Pref. shares of T'xee

Debentures of T'xee

or in kind (property Transfer)

8) Tree Co. will get the Business (i.e. Net Assets) of Trov Co.

Net Assets :- a) Assets
(-) Liabilities

b) $ESC + PSC + \text{R\&S}$ 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 Trov.

10) Books of Tree Co.

Tree Co. shall discharge the PC to the SH of Trov 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
Res	5,00,000	Current Assets	8,00,000
Liabilities	13,00,000		
	<u>20 lacs.</u>		<u>20 lacs.</u>

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

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

N. Cur. Assets 30 lacs.
 Current Assets 10 lacs.
 (-) Liabilities 13 lacs.
 (-) GST Liab. 0.5 lacs.

$$\begin{array}{rcl}
 \text{PC} & = & \underline{26.50 \text{ lacs.}} \\
 \text{Amt.} & &
 \end{array}$$

PC in form of No. of Shares:-

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

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.	C. Assets	15 lacs.
Liability	18 lacs.		

D shall issue Equity Shares for PC whose Face value is 10/- to be issued at 20% Premium.

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.

$$\begin{aligned} PC &= \begin{array}{r} \text{N.E Assets} \quad 25,00,000 \\ \text{C. Assets} \quad 15,00,000 \\ (-) \text{ Liab.} \quad (18,00,000) \\ (-) \text{ Unrecorded Liab.} \quad (1,00,000) \end{array} \end{aligned}$$

$$PC \text{ amt} = \underline{\underline{21,00,000}}$$

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

Case 3:- D Ltd. acquired J Ltd. on per following B/s (Tror)

<u>30000*</u>		
Book Value N.Worth	ESC (10)	3,00,000
	R&S	5,00,000
	Liabilities	22,00,000
		<u>30 lac.</u>
	N. Cur. Asset	20,00,000
	Current Assets	10,00,000
		<u>30 lac.</u>

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

Mp per share

$\frac{D}{50/-}$

$\frac{J}{60/-}$

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 :-

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

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

Case 4 :- D Ltd. acquired J Ltd
J Ltd. B/L

(101) Esc	5 lac.	LAB	18 lac.
Res	15 lac.	Income	12 lac.
Liab.	20 lac.	Other Ass.	10 lac.
	<u>40</u>		<u>40</u>

D Ltd Share issue Shows to J as PC
in **3:4**

MP per share of D is 70/-

80/-

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

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

Case 5:- P_c is based on Ex. Ratio as well as Net Assets Value

D Ltd. acquired Business of J Ltd.
B/s of J Ltd.

(10/-) Esc	60,00,000	L&B	22,00,000
R&S	27,00,000	P&M	15,00,000
Liabilities	34,00,000	Current Assets	30,00,000
	<u>67,00,000</u>		<u>67,00,000</u>

a) Goodwill Value of J Ltd is 50,00,000 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 $\Rightarrow$ Net Asset Values,

(-) Ex. Ratio PC
Cash

Net Assets (Fv)

LAB = 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

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

40000 no. (Dis shares)
x 80/-

32,00,000

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

Note:- If the statement "Remainning 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 Tron	
	DTree	JTron		DTree	J
ESC (101-)	10,00,000	7,00,000	L&B	25,00,000	32,00,000
R&S	20,00,000	15,00,000	P&M	16,00,000	20,00,000
PSC	50,00,000	40,00,000	CA	40,00,000	10,00,000
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 (Tron)
Land Building	20% Higher	20% Lower
P&M	30% Higher	10% Higher

4) PC to PSH of J Ltd, will be pref. shares
of £ 6,00,000

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

Calculate Total PC

Solution

Intrinsic Value per share should be
calculated as under :—

All Assets ————— FV / BV
(including Goodwill or Unrecorded Assets) if FV not given

(-) All Liabilities ————— (FV / BV)
(including Unrecorded Liabilities)

(-) PC to PSH ————— (xxx)

Net Assets available ————— xxx
for ESH

÷ No. of Shares ————— ÷
xx

IV Per Share

Decred
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 (50,00,000) (6,00,000)

Net Asset Available For ESH 39,80,000 18,60,000

$\div$
10,00,000 70000

IV per share 39.8/- 26.57/-
↓
MP

$$PC \text{ by D2td} \Rightarrow 70000 \times 26.57 = \frac{1860000}{39.8}$$

$$= 46733 \text{ no.} \\ \times 39.80/- \\ \hline 1859973$$

Remainning 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 30000 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	50000	350000
2	750000	640000
3	1300000	11,10,000

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

Sol) :- Avg profits :-

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

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

Distribution of PC :-

$$\begin{aligned} \text{To SH of A} &= 30,000 \times \frac{850}{850+700} = 16,452 \text{ no.} \\ &\quad \times 15 \\ \text{PC} &= \underline{2,46,780/-} \end{aligned}$$

$$\begin{aligned} \text{To SH of B} &= 30,000 \times \frac{700}{850+700} = 13,548 \text{ no.} \\ &\quad \times 15 \\ \text{PC} &= \underline{2,03,220/-} \end{aligned}$$

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

a) 15000 no. of shares to be issued
MP per share of A Ltd. 25/-

b) Also, A Ltd will issued 8% pref. shares of 100 each of such adequate 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	21,00,000
R&S	18 lacs	CA	15,00,000
Liabilities	10 lacs.		
	<u>36 lacs</u>		<u>36 lacs.</u>

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)

<u>Payment to</u>	<u>Payment in</u>	<u>Working</u>	<u>Amnt.</u>
ESH of Tror	Eg shares of Tror	15000×25	375,000
ESH of Tror	8% pref. shares	$\left(\frac{330000}{8\%} \right) \div 100$ 41250 no.	41,25,000
			<u>45,00,000</u>

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

IV (Deemed MP)	$\frac{D}{125/-}$	$\frac{J}{180/-}$
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No. of Shares of J Ltd are 90000 no.

PC Shares to be issued by D @ Face Value only.

$$FV = 100/-$$

<u>Payout to</u>	<u>Payout in</u>	<u>Working</u>	<u>Amnt.</u>
ESH of Tror	Eg. shares of Tree	$\frac{90000 \times 180}{125}$	1,29,60,000
		$129600 \text{ no.} \times 100/-$	

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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 Tree 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 must agree to become the ESH of Tree Co.
(external SH)

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

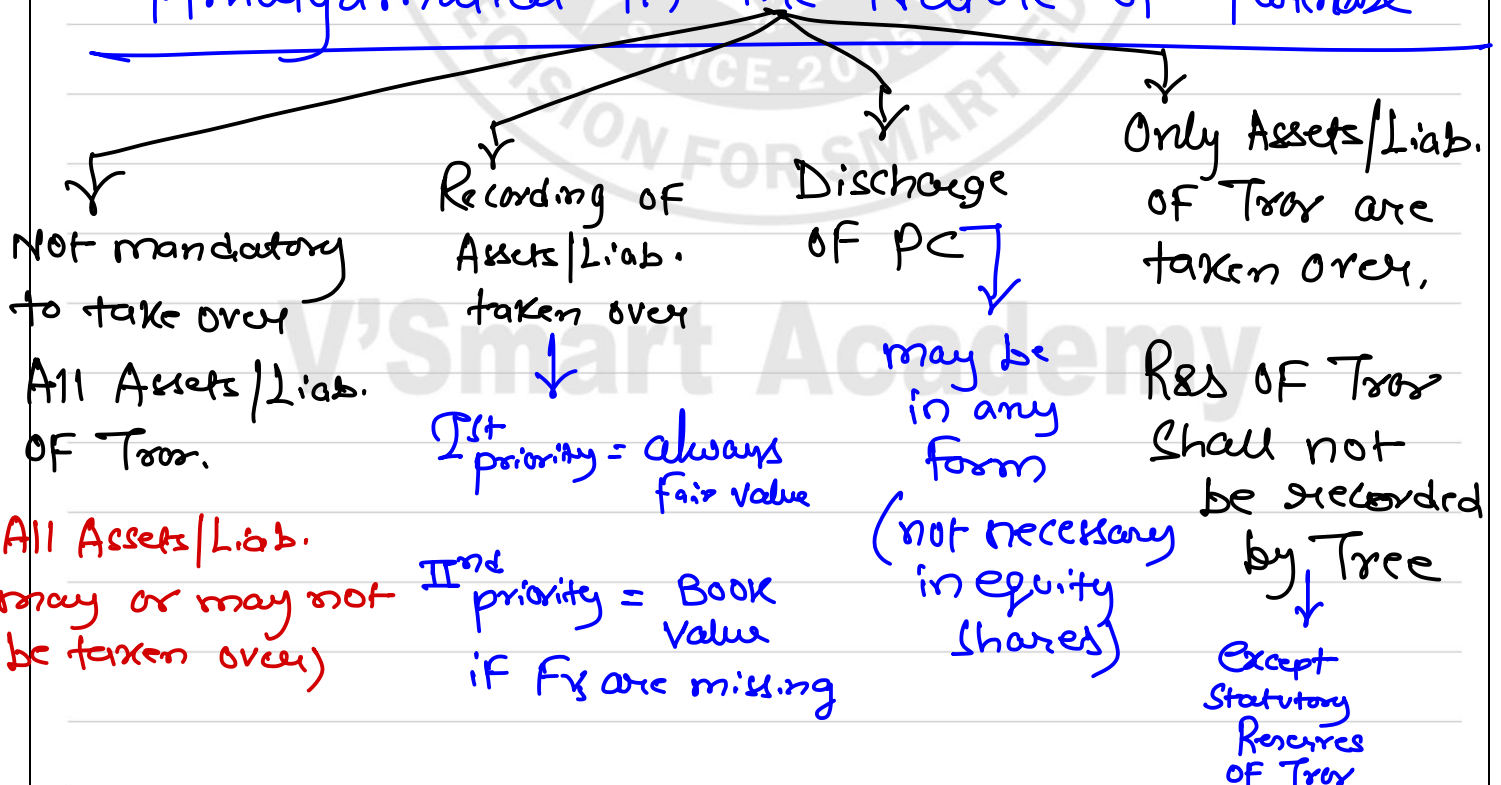
(However, to apply Uniform accounting policy on Assets/Liab. of Tror Co., those Assets/Liab. can be adjusted & recorded at different Value)

* 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



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 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) 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
<u>Payment of PC:</u> Liquidator A/c Dr. To Cash A/c To Equity Share Capital A/c To Pref. Share Capital A/c	<u>Payment of PC:</u> 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 <u>Cancellation of Receivables and Payables</u> Payables A/c Dr. To Receivables A/c <u>For Payment of Liability:</u> (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) <u>For Payment of Expenses/Unrecorded Liability:</u> CR / Goodwill A/c Dr. To Cash A/c (Use Capital Reserve first if available then Goodwill) <u>For creation of Statutory Reserves:</u> Amalgamation Adjustment Reserve Dr. To Statutory Reserves A/c (Following are statutory reserves: 1. Invest. 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 <u>For Unrealised Profit:</u> <u>Upstream Transaction:</u> Goodwill A/c Dr. To Stock A/c <u>Downstream Transaction:</u> General Reserve A/c Dr. To Stock A/c	To Security Premium A/c <u>Cancellation of Receivables and Payables</u> Payables A/c Dr. To Receivables A/c <u>For Payment of Liability:</u> 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) <u>For Payment of Expenses/Unrecorded Liability:</u> Gen. Res. or P&L A/c Dr. To Cash A/c P&L 1st priority GR 2nd priority No Statutory reserve to be created separately, since they are already recorded in 2nd Entry above. <u>For Unrealised Profit:</u> <u>Upstream and Downstream Transaction:</u> General Reserve A/c Dr. To Stock A/c
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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

$$\text{Goodwill} = 4 \times \text{Avg. Profit}$$

Est. Future profit

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
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
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Simple (or) weighted
Avg.

Method 2:- Super Profit method :-

Goodwill is 3 years purchase of SP

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

$$\text{SP} = \text{Avg. Profit} - \text{Normal profit}$$

$\frac{152000}{90000}$

$$\text{Normal Profit} = \frac{\text{Capital Employed (X)}}{\text{Tror. 900000}} \text{NRR (10\%)} 10\%$$

Method 3:- Capitalisation method (Capitalisation of SP method)

$$\text{Goodwill} = \frac{\text{Avg. Profit}}{\text{NRR (10\%)}} - \text{Actual Capital Employed}$$

$\swarrow$ itna Capital Lagana Padega $\quad$ $\swarrow$ 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)

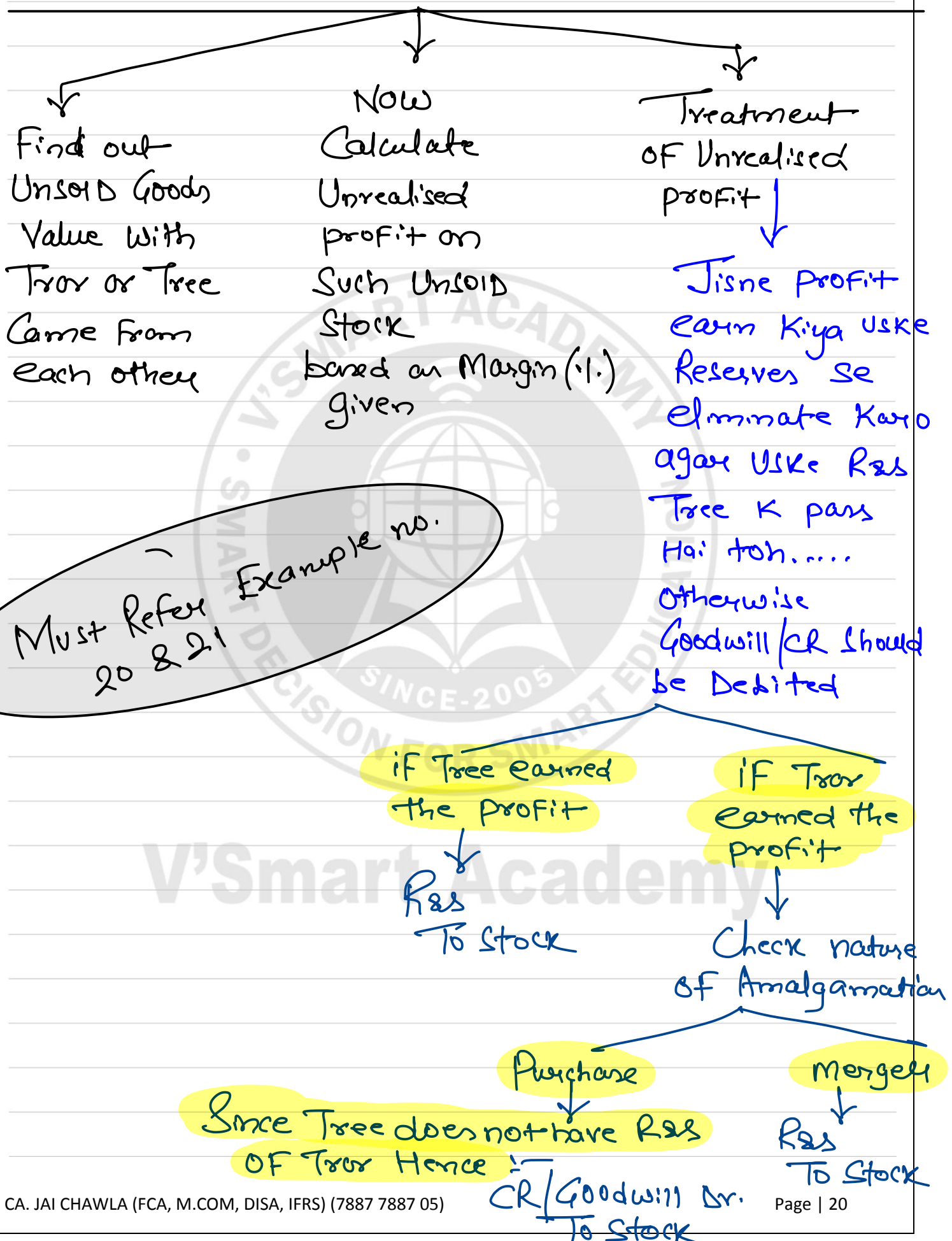
(-) All Liabilities

not the Settlement value

as per Existing B/S

Capital Employed

Elimination OF Unrealised Profits on **Unsold Stock** Under Inter Co. Transactions



Example:- Tree sold goods to Tror
Total Cost = 280,000
Total SP = 350,000

Unsold goods with Tror out of above = 120,000

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

Solution :-

$$\text{Unrealised profit} = \frac{70000}{350000} \times 120000 = 24000$$

24000 should be eliminated from Inventory of 120,000 & 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 108,000
But actual Cost of Inventory 96,000

Unrealised profit to = 12,000
be eliminated

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 Bfs

↓

Inventory 144000 (-) UP 24000	120000
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Amalgamation in the nature of Merger (Accounting)

- 1) Assets/Liab. should be recorded at BV except when Debn 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.

- 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:-

Trox Bfs

Esc(10) 10 lacs.	PPE 16 lacs.
SP ✓ 1 lac	CA 14 lacs.
EPR ✓ 2 lacs.	
GR 5 lacs.	
10% Deb ⁿ 12 lacs.	
<u>30</u>	<u>30 lacs.</u>

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 $\Rightarrow \frac{120000}{8\%} = 15 \text{ lacs}$

2nd entry:-

PPE a/c Dr. 16 lacs.
CA a/c Dr. 14 lacs.

because GR
Can not
be negative

← P&L a/c Dr. 5 lacs.

To Debⁿ Holders 15 lacs.

To B/P 17 lacs.

Minimum
Maintain

To SP

To EPR

1 lac
2 lacs.

PC = 17

Sh. = 10

Cap

7 lacs. Reserves dr^t.
Create Karna Hai

GR(Trox) 5
Nahi Kiya

3 Mandatory
Create Kiya

P&L 5
lacs.

Reversal

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 & Res to Shareholders A/c (PSH & ESH)

(B/s को खत्म करो)

Step 2:- Purchase Consideration shall be accrued ↓

Tree a/c Dr.
To Realisation

(PC not due not)

Step 3:- PC shall be received ↓

Sh 50000
4

Cash Dr.
Share/Debn Dr. → 5
To Tree Co.

(PC not receive not)

Step 4:- Discharge PC to PSH First & transfer
The Difference to Realisation A/c
(PSH amt PC pay amt)

Step 5:- Those Assets/Liab. Which are not taken
over by Trce shall be Settled in Cash
by Trce 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 amt Close amt)

Step 7:- PC to be discharged to ESH along
with Cash/Bank Balance
(PC amt discharge amt ESH amt)

Final Balance = PC for ESH (+) Cash
OF ESH 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 Manger $\Rightarrow$ 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) Debt 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 Debt shall be Considered always at Settlement Value.

Also, in 2nd entry of Assets/Liabilities, Debt 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.

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.



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.

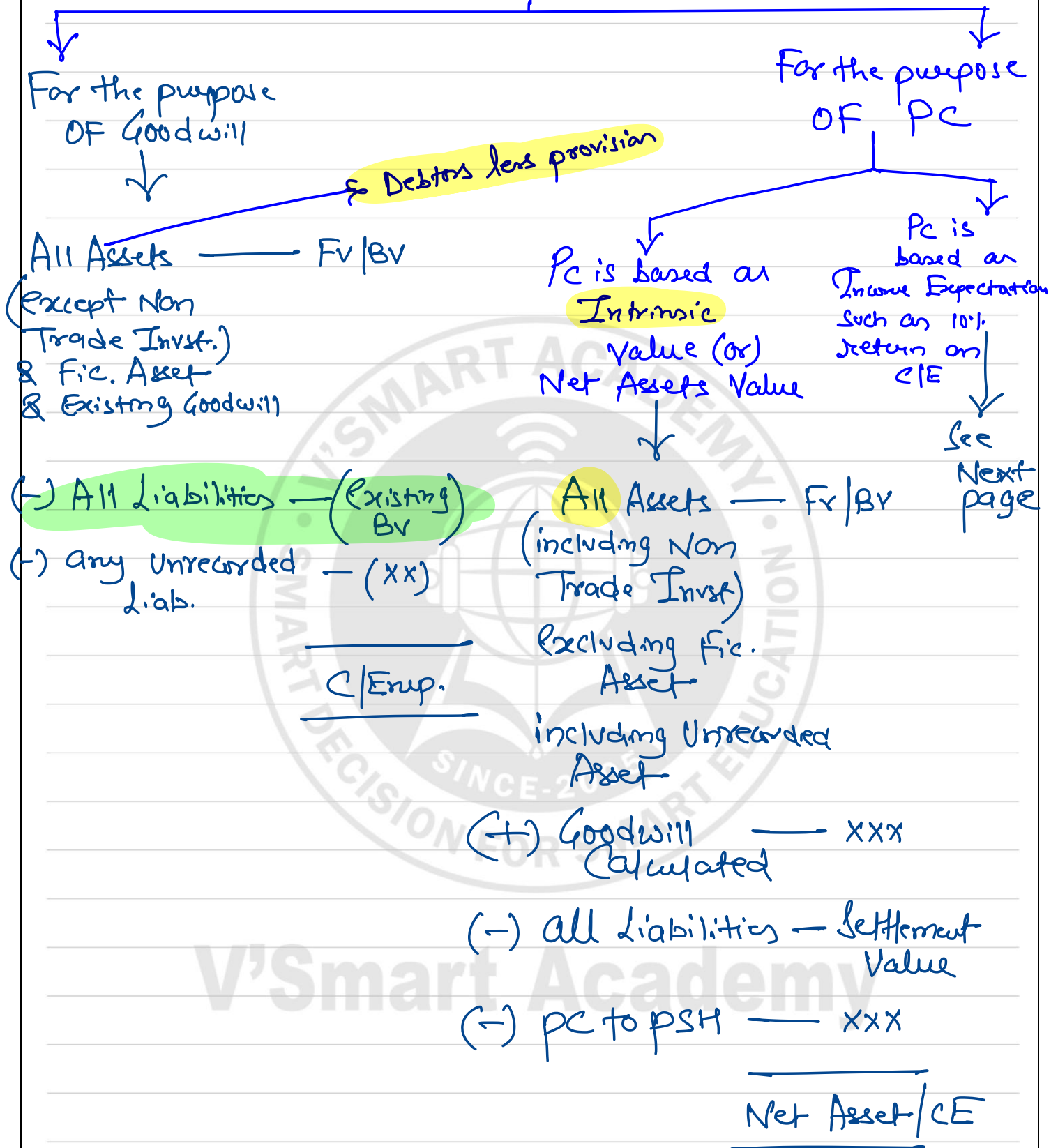
CR a/c Dr. (to the extent
available Bal.)
Goodwill a/c Dr. → (2nd priority)
→ To Bank

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

11) If question ask to write off (or amortise)
the Goodwill after amalgamation
then following Entry shall be passed :-

CR a/c Dr. (if available)
P&L (or) GR Dr.
→ To Goodwill

12) Calculation OF Net Assets / Capital Employed



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

All Assets (including Unrecorded & Non Trade Invest)	Fr/Bv xxx
(-) All Liabilities (including Unrecorded Liab)	at Existing values.
(+) Goodwill if any	xxx
(-) Payable to PSH	xxx
	<u>Capital Employed For ESH</u>

13) When Goodwill is given for Tree & Tror, it's 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 Debt 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/L Recording;

Debt 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 Debt" or "Preliminary exp" (or) "Pre incorporation Exp" of Tror Co. shall always be W/OFF from P&L a/c of Tror. Co. before tax over.
(Refer Q 302 B)

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

①

Debentures of Tror (200000) shall be

discharge at 5%.

Discount by issue of New Debenture at par



$$\begin{aligned}\text{Settlement Value} &= 200000 - 5\% \\ &= 190000\end{aligned}$$

New Debⁿ of 190000 at par to be issued

②

Debentures of Tror (200000) shall be

given New Debenture of that amt which is sufficient to discharge at 5% discount after take over

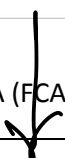


$$\begin{aligned}\text{Settlement Value} &= 2,00,000\end{aligned}$$

New Debⁿ shall be issued at 95/- per Debⁿ

19) If Goodwill is appearing in B/s of Tror 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

Tree Books

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

a) Tree shall take
over 5000 of
Liability

b) In ESH A/c Close 3000
of Reserve

b) If PC is required
as per Net 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?

