

**AS 14****Accounting for Amalgamation****Question 1**

Briefly explain the methods of accounting for amalgamation as per Accounting Standard-14.

(New SM)(MTP 4 Marks Oct '23)

Answer 1

As per AS 14 on 'Accounting for Amalgamations', there are two main methods of accounting for amalgamations:

The Pooling of Interest Method

Under this method, the assets, liabilities and reserves of the transferor company are recorded by the transferee company at their existing carrying amounts (after making the necessary adjustments).

If at the time of amalgamation, the transferor and the transferee companies have conflicting accounting policies, a uniform set of accounting policies is adopted following the amalgamation. The effects on the financial statements of any changes in accounting policies are reported in accordance with AS 5 on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies'. The Purchase Method

Under the purchase method, the transferee company accounts for the amalgamation either by incorporating the assets and liabilities at their existing carrying amounts or by allocating the consideration to individual identifiable assets and liabilities of the transferor company on the basis of their fair values at the date of amalgamation. The identifiable assets and liabilities may include assets and liabilities not recorded in the financial statements of the transferor company.

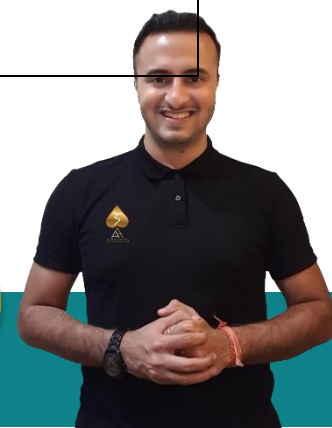
Question 2

Distinguish between Amalgamation, Absorption and External Reconstruction of Company.

(PYP 5 Marks May '19)

Answer 2***Difference between Amalgamation, Absorption and External Reconstruction***

Basis	Amalgamation	Absorption	External Reconstruction
<i>Meaning</i>	<i>Two or more companies are wound up and a new company is formed to take over their business.</i>	<i>In this case, an existing company takes over the business of one or more existing companies.</i>	<i>In this case, a newly formed company takes over the business of an existing company.</i>
<i>Minimum number of Companies involved</i>	<i>At least three are companies involved.</i>	<i>At least two companies are involved.</i>	<i>Only two companies are involved.</i>





<i>Number of new resultant companies</i>	<i>Only one resultant Company is formed. Two companies are wound up to form a single resultant company.</i>	<i>No new resultant company is formed.</i>	<i>Only one resultant company is formed. Under this case a newly formed company takes over the business of an existing company.</i>
<i>Objective</i>	<i>Amalgamation is done to cut competition and reap the economies in large scale.</i>	<i>Absorption is done to cut competition and reap the economies in large scale.</i>	<i>External reconstruction is done to reorganize the financial structure of the company.</i>
<i>Example</i>	<i>A Ltd. and B Ltd. amalgamate to form C Ltd.</i>	<i>A Ltd. takes over the business of another existing company B Ltd.</i>	<i>B Ltd. is formed to take over the business of an existing company A Ltd.</i>

