AS-14 :- Accounting for Amalgamation

It basically covers two aspects :-

1. **Amalgamation :-**

Company 1 → Company 3 ← Company 2

Now Co. 1 and Co. 2 are out of existance and their business is now carried on by Co. 3.

2. **Absorption :-**

Company 1 → Company 2

Company 2

Co. 2 takes over Co. 1, so Company 1 is now out of existance and its business is carried on by company 2.

Point to be noted is that, during amalgamation (absorption) atleast one company is losing its existance.

Terms used for amalgamation :-

The company carrying on business going ahead :-

1. Purchasing Company.
2. Transferee Company.
3. Amalgamated Company.

The company that will cease to exist going ahead :-

1. Vendor Company.
2. Transferor Company.
3. Amalgamating Company.

Accounting for Amalgamation

Purchasing Company Books

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AS-14 prescribes accounting for amalgamation for purchasing company books.

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Following points to be noted in Purchasing Company books :-

1. Calculation of Purchase Consideration.
2. Discharge of Purchase Consideration.
3. Nature of Amalgamation.
4. Accounting for amalgamation.

Vendor Company books.

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Similar to Dissolution of Partnership.

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AS-14 doesnot prescribe accounting for amalgamation for vendor Co. books.

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Accounting for amalgamation is done as per Generally accepted Accounting Principles.

CALCULATION OF PURCHASE CONSIDERATION

- **LumpSum Method**
  - Scores.
  - Least chances of being asked in exam.
- **Net Assets Takenover method**

→ Assets Takenover	xxx
− Liabilities Takenover	(xxx)
Net Assets Takenover	xxx

  - kya-kya takeover kiya
- **Payment method**
  - Shares → 10lakh
  - Debent → 50L
  - Cash → 25L
  - kya kya diya

  Inorder to apply payment method, we need information related to two things :-

  1. kya diya
  2. kitna diya.

  Always, 1st try to apply payment method. If complete of for application of payment method are not available. then apply net assets takenover method.
- **Intrinsic Value method.**
  - will be discussed later.

DISCHARGE OF PURCHASE CONSIDERATION

- Shares / Cash / Debentures
- Shares / Cash / Debentures
- same as calculation.
- will be discussed later.

Examples :-

Ex-1 :- A ltd. purchased B ltd. on the following terms :-

A will takeover the following assets at market value.

Particulars	BookValue	Marketvalue
1. Land	10000000	30000000
2. Building	8000000	6500000
3. Debtors	500000	500000
4. Stock	1000000	800000

A ltd. also took over the following liabilities :-

Creditors - 300000
Bank loan - 1500000

The purchase consideration will be discharged as follows :-

Equity Share = ₹ 100000
Cash = Bal amount.

Show the calculation and discharge of purchase consideration.

Solution :- **Calculation of Purchase Consideration** (NATO method)

Particulars	Amount
1. Land	30000000
2. Building	6500000
3. Debtors	500000
4. Stock	800000
5. less: creditors	(300000)
6. less: Bank loan	(1500000)
Net Assets Taken over	36000000

Discharge of Purchase Consideration

1. Total Purchase Consideration 36000000

By. Issue of Equity share capital 100000

By. cash (balance) 35900000

Example 2:- A ltd. takesover B ltd.

The assets & Liabilities of B ltd. are as follows :-

1. Land ₹ 50000000
2. Building ₹ 30000000
3. Debtors ₹ 5000000
4. P&M ₹ 10000000
5. Stock ₹ 2000000
6. Creditors ₹ 8000000
7. o/s salary ₹ 1000000

A ltd. will issue the following to B ltd. :-

1. 500000 Equity Shares of A ltd. of ₹ 10 each @ ₹ 110/sh.
2. 1000000 Preference Shares of A ltd. of ₹ 100 each @ ₹ 130/sh.
3. Cash ₹ 5000000.

Calculate Purchase Consideration.

Solution :- Calculation of Purchase Consideration (Payment Method)

1. Issue of Equity share capital

500000 × 110 = 55000000

2. Issue of Preference share Capital

1000000 × 130 = 130000000

3. Cash = 5000000

Total Purchase Consideration = 190000000

Discharge will be the same as calculation.

Example 3 :- A ltd. took over B ltd.

B ltd. had the following capital structure.

1. 100000 Equity Shares of ₹ 100 each
2. 50000 9% Preference Shares of ₹ 100 each.
3. 500000 10% Debentures of ₹ 100 each

A ltd. discharged the consideration as follows :-

→ Equity Shareholders of B ltd. will be issued/allotted 5 Equity shares for every 2 equity shares of B ltd. @ ₹ 25/sh.

→ Preference shareholders of B ltd. will be issued 4 Preference shares for every 5 Preference Shares of B ltd. @ ₹ 100/sh.

→ Debentures holders will paid an equivalent amount in cash.

Calculate Purchase Consideration.

Solution :- Calculation of Purchase Consideration (Payment Method)

Issue of Equity Share Capital = 250000 × 25 = 6250000

A ltd.	B ltd.
5	2
x = 250000	100000

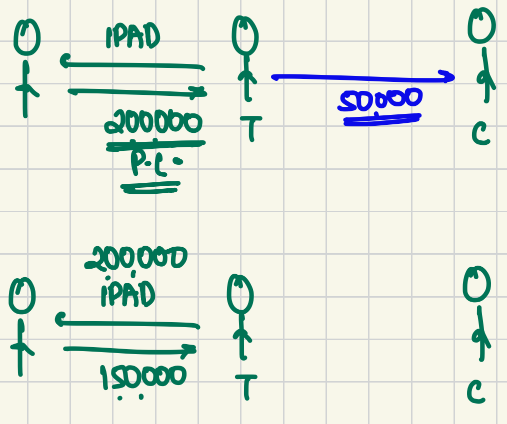
Issue of Preference share Capital = 40000 × 100 = 4000000

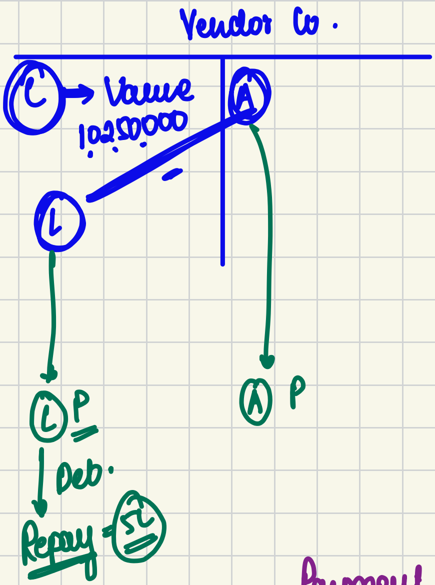
A ltd.	B ltd.
4	5
x = 40000	50000

Total Purchase Cons = 10250000

NOTE :- Purchase Consideration will include only payment to owners of a company.

P.C. doesnot include repayment or discharge of a liability of the company.





kya diya → immaterial

Vendor Co.

Owners : pay → Shares, Cash, Debentures → included in P.C.

kisko diya

Payment to whom

Debentureholders → pay → Shares, Debent, Cash → not included in P.C.