



Accounting for Amalgamation (AS 14)

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Introduction

➤ What is *Amalgamation*

?✓ Two or More Companies join to form new Company

✓ Absorption or blending of one by other

➤ Amalgamation includes

✓ Amalgamation

✓ Absorption

✓ External Reconstruction



Introduction(Cont..)

Amalgamation

- Existing Companies A Ltd. And B Ltd. are wound up and a new company C Ltd. is formed to take over businesses of A & B

Absorption

- An existing company A Ltd takes over business of B Ltd, which is wound up

External Reconstruction

- A new Company X Ltd is formed to take over the Business of as existing company Y Ltd, which is wound up

Introduction(Cont..)

A Ltd

&

B Ltd

Amalgamation C Ltd

Introduction(Cont..)

A Ltd

B Ltd

Absorption

Introduction(Cont..)

X Ltd

Y Ltd

**External
Reconstruction**

Definitions

➤ **Amalgamation**

“Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 1956 or any other statute which may be applicable to companies”

➤ **Transferor company**

“Transferor company means the company which is amalgamated into another company”

➤ **Transferee company**

“Transferee company means the company into which a transferor company is amalgamated”

Definitions

➤ In Amalgamation Example



Types of Amalgamation

Amalgamation for Accounting Purpose

Amalgamation in the
nature of merger



Amalgamation in
the
nature of
Purchase

Types of Amalgamation (Cont..)

➤ Amalgamation in the nature of merger

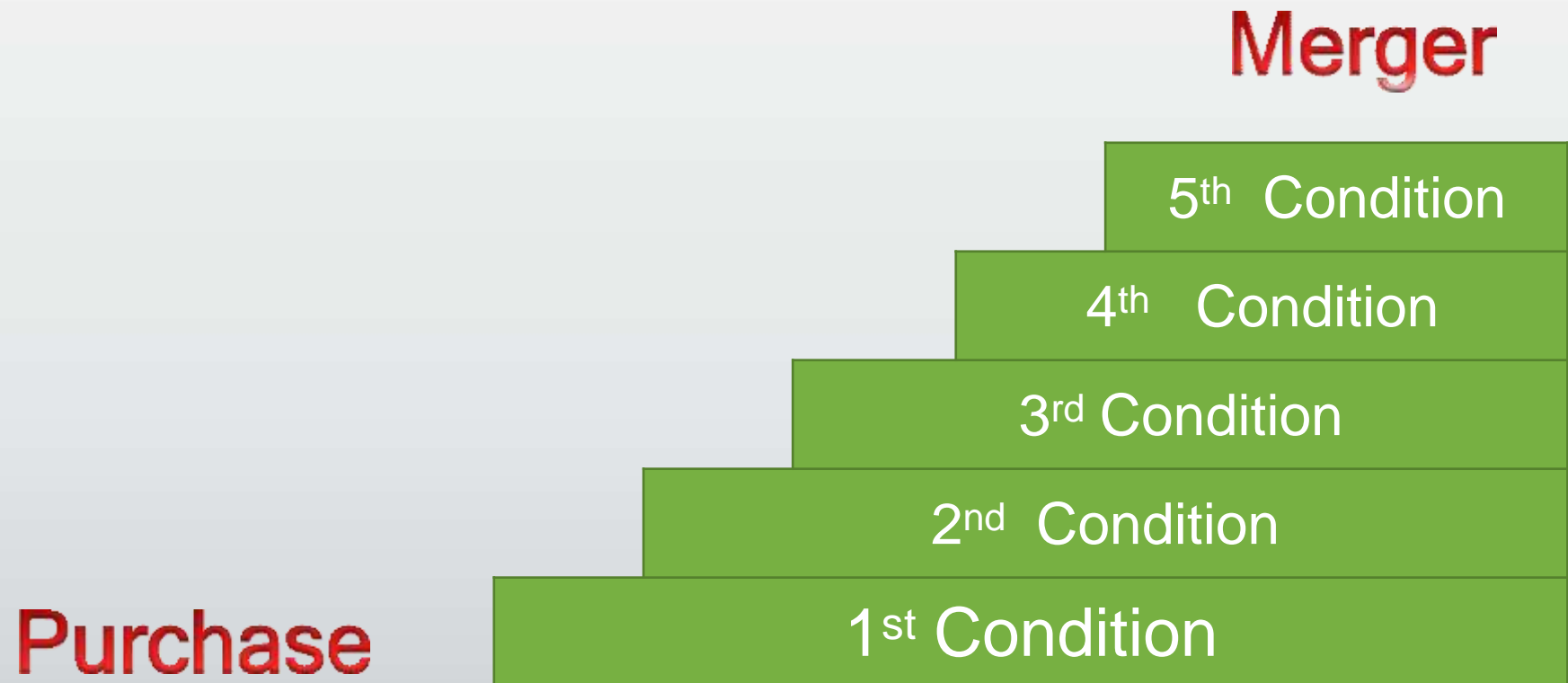
“Amalgamation in the nature of merger is an amalgamation which satisfies all the following conditions

- ✓ *All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company*
- ✓ *Shareholders holding not less than 90% of the face value of the equity shares of the transferor company become equity shareholders of the transferee company by virtue of the amalgamation*
- ✓ *The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares*
- ✓ *The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company*
- ✓ *No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies”*

Types of Amalgamation (Cont..)

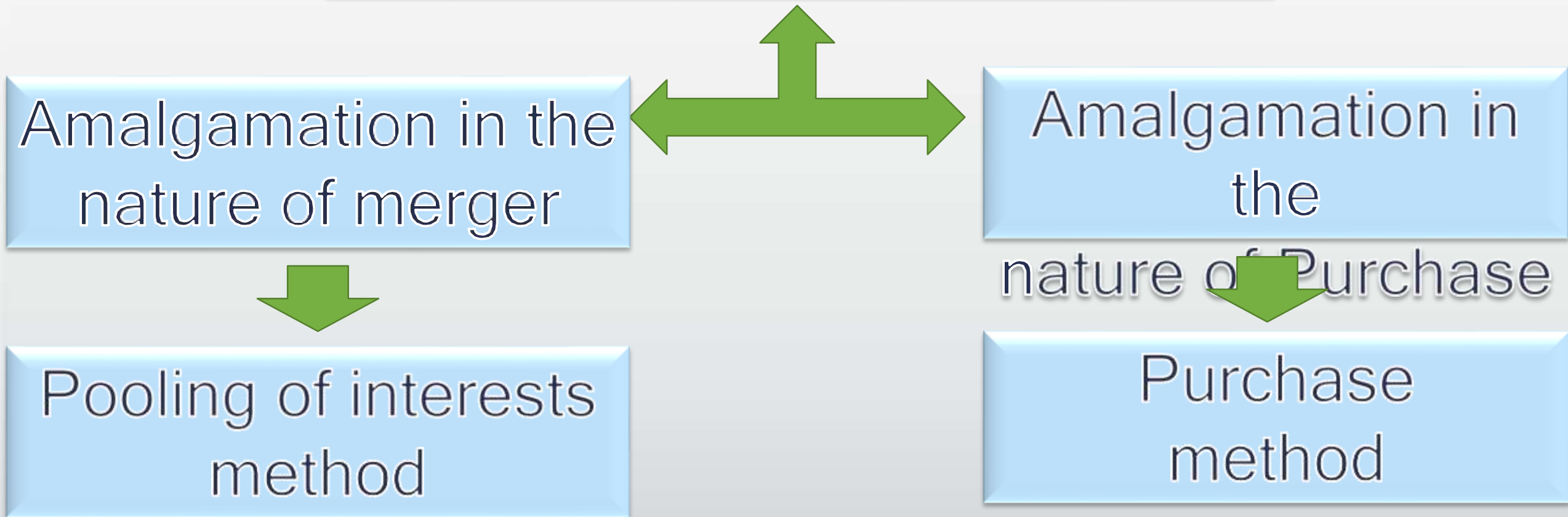
➤ Amalgamation in the nature of Purchase

“Amalgamation in the nature of purchase is an amalgamation which does not satisfy any one or more of the conditions specified under The Nature of merger”



Methods of Accounting for

Amalgamation for Accounting Purpose



Methods of Accounting for

➤ In Pooling Interest Method

Assets, Liabilities &
Reserves of the
transferor company

Recorded at

Existing carrying amounts in
the same form as at the date of
amalgamation

Balance of Profit &
Loss Account of the
Transferor company

Recorded at

Aggregated with the
corresponding balance of the
transferee company transferred
to General Reserve

Methods of Accounting for

➤ In Pooling Interest Method

The Difference between amount recorded as share capital issued(Plus any additional considerations in form of cash or any other form) and the share capital of the transferor company is adjusted in reserves in the financial statements of transferee company

Share capital issued
(Plus any additional
considerations in form
of cash or any other
form)

—

Share capital of
the transferor
company

=

Adjusted in
reserves of the
transferee
company

Methods of Accounting for Amalgamation

➤ In Purchase Method

Assets and Liabilities of the transferor Company

Incorporated at there
existing carrying amounts

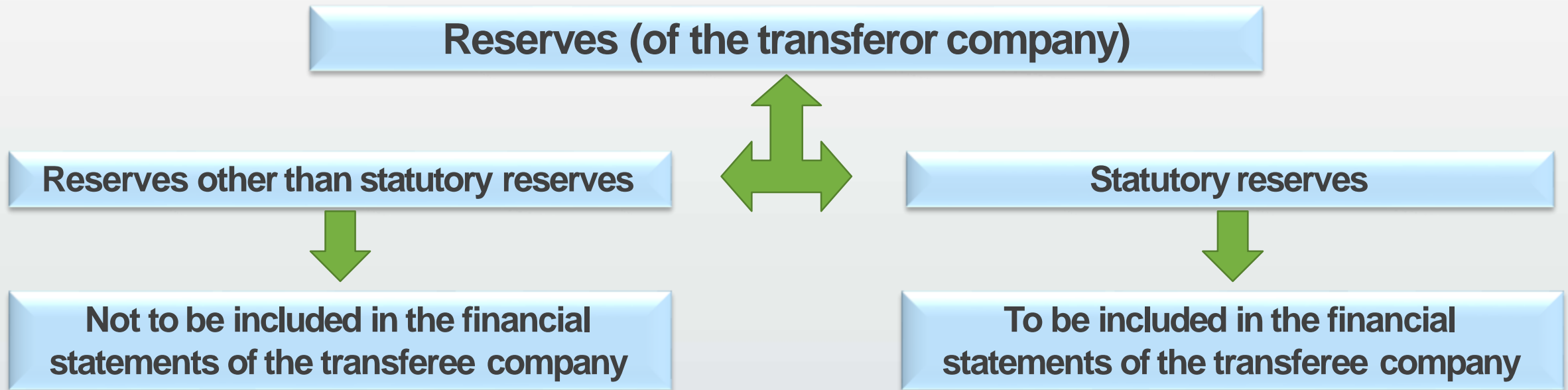
OR

Consideration allocated to
individual identifiable assets
and liabilities on the basis of
their fair values at the date of
amalgamation

The Profit & Loss A/c Balance of Transferor company, whether it Debit or Credit, loses its
identity

Methods of Accounting for Amalgamation

➤ In Purchase Method



Consideration

➤ **Consideration Means**

Aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company

In simple words it is the price payable by the transferee company to the transferor company for taking over the business of the transferor company

➤ **Does not Include**

- × The sum which the transferee company will directly pay to the creditors of the transferor company

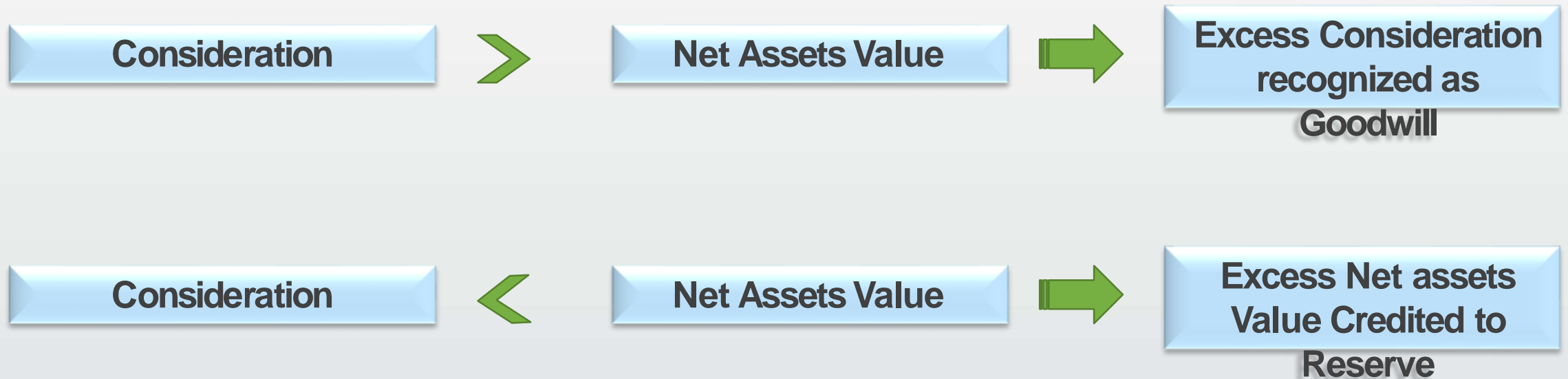
Consideration (Cont..)

➤ It Includes

- ✓ Any non-cash element at fair value
- ✓ In case of issue of securities, fair value is the value fixed by the statutory authorities
- ✓ In case of other assets, the fair value may be determined by reference to the market value of the assets given up
- ✓ Where the market value of the assets given up cannot be reliably assessed, such assets may be valued at their respective book value

Consideration (Cont..)

- If Consideration is not equal to Net Assets Value



Disclosures

➤ **Both Natures of Amalgamation**

- ✓ Names and general nature of business of the amalgamating Companies
- ✓ Effective date of amalgamation for accounting purposes
- ✓ The method of accounting used to reflect the amalgamation and
- ✓ Particulars of the scheme sanctioned under a statute
- ✓ The amount of any difference between the consideration and Value of
Net Assets Acquired

➤ **In case Pooling interests method**

- ✓ Description and number of issued

➤ **In case Purchase Method**

- ✓ Description of the consideration paid or payable

All the best to all participants

THANK YOU