

# Advanced corporate Accounting

## Chapter -Mergers and acquisitions of Companies

### Meaning:

Merger refers to an arrangement where in one company existing or newly formed acquires one or more business entities which may result in combination of companies.

**AS -14 has classified amalgamation under the following two types:**

1. Amalgamation in the nature of merger and
2. Amalgamation in the nature of purchase

### Amalgamation in the Nature of Merger:

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

- a) All the assets and liabilities of the transferor company, after amalgamation becomes, the assets and liabilities of the transferee company.
- b) Share holders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity share holders of the transferee company by virtue of the amalgamation.
- c) The consideration for the amalgamation receivable by those equity share holders of the transferor company who agree to become equity share holders 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.
- d) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.
- e) 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.

### Amalgamation in the Nature of Purchase:

Amalgamation in the nature of purchase is an amalgamation which does not satisfy one or more of the above conditions. That is, an amalgamation can be considered as amalgamation in the nature of purchase when-

- a) All the assets and the liabilities of the transferor company does not become the assets and liabilities of the transferee company after amalgamation; or
- b) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company do not become equity shareholders of the transferee company by virtue of the amalgamation; or

- c) The consideration for amalgamation is given by transferee company in the form of cash, debentures etc., with or without equity shares of the transferee company; or
- d) The transferee company is not intending to carry on the business of the transferor company, after amalgamation; or

The assets and liabilities of the transferor company are incorporated in the books of transferee company at adjusted values

### **Purchase Consideration:**

Purchase consideration refers to the cash and non-cash payments made by the purchasing company to the shareholders of the selling company/companies. Non-cash items include shares, debentures and other securities like debentures issued by the transferee company. In other words it is the payment made by the new company for taking over the assets and liabilities of the vendor company

Purchase consideration can be computed under the following three methods:

1. Lumpsum method
2. Net payments method
3. Net assets method and

### **Lumpsum method:**

When purchase consideration amount is mentioned in the problem itself is called lumpsum method.

### **Net Payments method:**

Under this method, purchase consideration is calculated as the total of payments made in the form of shares, debentures, other securities and cash to the shareholders of the vendor/transferor company. According to AS-14, purchase consideration includes the amount paid to shareholders only – both equity and preference shareholders. Payments made to debenture holders and creditors will not form a part of the purchase consideration.

### **Net assets method:**

In this method, purchase consideration will be the excess of assets over liabilities. The purchasing company will take over assets and liabilities at certain value (also known as agreed values/taken over values), which may or may not be the balance sheet values. In other words, assets and liabilities will be considered at the agreed values for calculating the purchase consideration.

$$\text{Purchase Consideration} = \text{Assets taken over (at 'taken over' values)} - \text{Liabilities taken over (at 'taken over' values)}$$

### **Points to be remembered:**

- a) Net assets method to be followed only when it is not possible to calculate the consideration under net payments method.
- b) Assets taken over by the purchasing company at the agreed values to be considered.

- c) Similarly, liabilities taken over at agreed values only to be included while calculating purchase consideration.
- d) Items included under the heading “Miscellaneous Expenses” and “Reserves and surplus” in the balance sheet should be ignored while determining the purchase consideration.

**Accounting Treatment:**

There are two methods of accounting for amalgamation, viz.,

- The pooling of interests methods; and
- The purchase method.

The pooling of interest method is adopted for accounting only when the “amalgamation is in the nature of merger” and, The Purchase Method is adopted for accounting in case of “amalgamation in the nature of purchase.”

1. Under pooling of interests method, all assets, liabilities and reserves of the transferor/vendor company will be recorded by the transferee company at book values unless any adjustment is required due to different accounting policies followed by these companies.
2. Under purchase method, assets and liabilities of the transferor company, taken over, will be recorded in the books of Transferee Company at agreed values. In this case, no reserves (other than statutory reserves) of the transferor company will be recorded in the books of Transferee Company.

**Difference between the Two Methods of Accounting**

<i>Pooling of Interests Method</i>	<i>Purchase Method</i>
1. All assets and liabilities of Transferor Company will be incorporated in the books of Transferee Company.	1. Only assets and liabilities taken over by Transferee Company will be incorporated in its books.
2. All reserves of Transferor Company will be recorded in the books of Transferee Company.	2. Other than Statutory Reserves (see below), no other reserves of the Transferor Company will be recorded in the books of Transferee Company.
3. The assets and liabilities of Transferor Company will be recorded in the books of Transferee Company at book values.	3. The assets and liabilities of Transferor Company will be recorded in the books of Transferee Company at agreed values.
4. Any difference between purchase consideration and value of assets and liabilities taken over must be adjusted against general reserves.	4. Any difference between purchase consideration and value of assets and liabilities taken over must be treated as goodwill or capital reserves, as the case may be.

### Statutory Reserve:

It refers to the reserves to be maintained as per the requirements of any law or legislation only in case of Amalgamation in the nature of purchase (Purchase Method).

In the books of the vendor company it should be treated like any other liability.

In the books of the purchasing company, statutory reserve must be transferred to "Amalgamation Adjustment Account" and appears in the Balance Sheet. The following entry should be passed to incorporate the reserve:

Amalgamation adjustment A/c	Dr.
To Statutory Reserve A/c	

It will appear in the balance sheet as follows:

Statutory Reserve will be recorded on the liabilities side under "Reserves & Surplus" and Amalgamation Adjustment Account will be recorded on the asset side under "Miscellaneous Expenses and losses".

If the statutory reserve need not be maintained by the purchasing company, the above entry will be reversed to eliminate the reserve.

### Classification of Accounts:

The following table gives the list of items classified under various categories:

<i>Trade Liabilities</i>	<i>Liabilities</i>	<i>Accumulated Profits</i>	<i>Provision and Accumulated losses</i>	<i>Statutory Reserves</i>
1. Creditors or trade creditor	1. Trade Creditors	1. Profit and Loss (Credit)	1. Provision for Depreciation or Depreciation Fund	1. Investments Allowance Reserve
2. Bills payable	2. Bills payable	2. General Reserve	2. Provision for Doubtful Debt	2. Development Rebate Reserve
	3. Bank overdraft.	3. Reserve Fund	3. Provision for Investments	3. Workman Compensation Fund
	4. Debentures	4. Revenue Reserve	4. Profit and Loss Account (Debit)	4. Foreign Project Reserve
	5. Loans	5. Debenture Sinking Fund or Debenture Redemption Fund	5. Preliminary Expenses	5. Export Profit Reserve etc
	6. Pension Fund	6. Capital Redemption Reserve	6. Discount on issue of Shares and	
	7. Provident Fund	7. Shares forfeited Account		
	8. Super Annuation Fund	8. Share Premium Account		
	9. Workman Savings bank account	9. Workman Compensation Fund		

	10. Workman Profit Sharing Fund 11. Provision for Taxation 12. Unclaimed dividend 13. Outstanding expenses	10. Workman Accident Fund or Fatal Accident 11. Insurance Fund 12. Dividend Equalization Fund 13. Dividend Rebate Reserve	Debentures i.e., expenses not yet written off	
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Steps involved in the accounting procedure of Amalgamation, Absorption and External Reconstruction of Companies.

- a. Calculation of purchase consideration
- b. Ascertainment of discharge of purchase consideration
- c. Closing the books of vendor company or transferor company
- d. Passing opening entries in the books of purchasing company (i.e., Transferee Company).

**Step 1.** Calculation of purchase consideration

**Step 2.** Discharge of purchase consideration: After calculating the purchase consideration, the way in which it will be discharged by the purchasing company must be determined. The consideration can be settled by paying cash and allotting shares (equity and preference shares).

**Step 3.** Closing the books of transferor company: The following journal entries are to be passed under the purchase method of accounting:

- (i) For transfer of assets including cash at the balance sheet value:

Realisation A/c Dr.  
    To Individual asset A/c

- (ii) For transfer of all liabilities including debentures and statutory reserves:

Individual liability A/c Dr.  
    To Realisation A/c

- (iii) For purchase consideration due:

Purchasing company A/c Dr.  
    To Realisation a/c

- (iv) For payment of realization expenses:

- (1) If paid by the vendor company:

Realisation A/c Dr.  
    To Cash / Bank A/c

- (2) If paid by the purchasing company:

No entry.

(v) For sale of assets not taken by the purchasing company:

Cash / Bank A/c Dr.  
To Realisation a/c

(vi) For payment of liabilities not taken over by the purchasing company:

Realisation A/c Dr.  
To Cash / Bank A/c

(vii) For preference share capital due:

(1) Payable at par:

Preference share capital A/c Dr.  
To Preference shareholders a/c

(2) Payable at a higher value:

Preference share capital A/c Dr.  
Realisation A/c Dr.  
To Preference shareholders a/c

(3) Payable at a lower value:

Preference share capital a/c Dr.  
To Realisation A/c  
To Preference shareholders A/c

(viii) For closing realization a/c:

(1) In case of profit:

Realisation A/c Dr.  
To Equity shareholders a/c

(2) In case of loss:

Equity shareholders A/c Dr.  
To Realisation A/c

(ix) For transfer of share capital, reserves and profits:

Equity share capital A/c Dr.  
Reserve A/c Dr.  
P/L A/c Dr.  
To Equity shareholders a/c.

(x) For transfer of preliminary expenses, underwriting commission, discount on issue of shares and debentures and P/L (loss) a/c:

Equity shareholders A/c Dr.  
To preliminary expenses A/c  
To underwriting commission a/c  
To discount on issue of shares and debentures A/c  
To P/L a/c.

(xi) For receipt of purchase consideration:

Equity shares in purchasing company A/c Dr.  
 Preference shares in purchasing company A/c Dr.  
 Cash / Bank A/c Dr.  
     To purchasing company A/c

(xii) For final payment made to preference share holders:

Preference share holders A/c Dr.  
     To cash a/c  
     To shares/debentures in purchasing company a/c

(xiii) For final payment made to equity shareholders:

Equity shareholders A/c Dr.  
     To Equity shares in purchasing company A/c  
     To Cash/ Bank A/c.

**Step 4** Opening entries in the books of the purchasing company:

<b>Pooling interest method</b>	<b>Purchase method</b>
<b>1.</b> For purchase consideration payable Business purchase A/c Dr. To Liquidator of Transferor co. a/c	<b>1.</b> For purchase consideration payable Business purchase A/c Dr. To Liquidator of Transferor co. a/c
<b>2.</b> For incorporation of assets, liabilities & reserves: Individual assets A/c Dr. General reserve (bf) A/c Dr. To creditors A/c To bills payable A/c To reserves A/c To P/L A/c To business purchase A/c To general reserve (bf) A/c	<b>2.</b> For incorporation of assets and liabilities: Individual assets a/c Dr (Revised values) Bank A/c Dr. Goodwill (bf) A/c Dr. To Individual liabilities A/c (Revised values) To capital reserve (bf) A/c
<b>3.</b> For discharge of purchase consideration: Liquidator of Transferor co. A/c Dr. Discount on issue of securities a/c Dr. To bank A/c To equity share capital A/c To preference share capital A/c To debentures A/c To securities premium A/c	<b>3.</b> For discharge of purchase consideration: Liquidator of Transferor co. A/c Dr. Discount on issue of securities A/c Dr. To bank A/c To equity share capital A/c To preference share capital A/c To debentures A/c To securities premium A/c
<b>4.</b> For making payment to debentures and other liabilities: Debentures / liability A/c Dr. Discount on issue of debentures A/c Dr. To debentures A/c To premium on issue of debentures A/c	<b>4.</b> For making payment to debentures and other liabilities: Debentures / liability A/c Dr. Discount on issue of debentures A/c Dr. To debentures a/c To premium on issue of debentures A/c

5. Payment of realization expenses: Reserves A/c Dr. To cash A/c	5. For payment of realization expenses: Goodwill / Capital reserve A/c Dr. To cash A/c
6. For incurring formation expenses: Preliminary expenses a/c Dr. To cash A/c	6. For incurring formation expenses: Preliminary expenses a/c Dr. To cash A/c
	7. For incorporation of statutory reserve: Amalgamation adjustment a/c Dr To Statutory reserve A/c
	8. If statutory reserve need not be maintained: Statutory reserve A/c Dr. To amalgamation adjustment a/c

## Chapter- Recent development in accounting and accounting standards

### **Meaning of Human resource Accounting**

Human resource accounting is the process of identifying and reporting investments made in the human resources of an organization that are presently unaccounted for in the conventional accounting practices. It is an extension of standard accounting principles.

In short Human resource accounting refers to reporting of investment made on the individual employees by the employer. It includes expenses incurred to recruit, select, train and develop human assets.

### **Definition**

“Human Resource Accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties.”

- According to American Accounting Society Committee on HRA

### **Environmental Accounting or Green Accounting**

It refers to accounting that exhibits the cost of conservation of environment during the normal course of business. It includes waste management cost, expenses on prevention of pollution and fines on environment related issues.

### **Social Accounting**

#### **Meaning**

Social accounting is concerned with the measurement and disclosure of costs and benefits to the society as a result of operating activities of a business enterprise.



## Definition

Acc to Elliot, "Social responsibility accounting is systematic assessment of and reporting on those parts of a company's activities that have social impact.

Methods of social accounting

1. **Social Income Statement** : Social Income statement is a statement which covers the net social income to employees, community and general public from an organization for particular period.
2. **Social Balance sheet**: Social Balance sheet consists of assets and liabilities of an organization meant for social benefits to employees, community and general public

## Brand valuation

Brand valuation is the job of estimating the total financial value of the brand. Like the valuation of any product, of self review or conflicts of interest if those that value of brand also were involved in its creation.

Methods of valuation of Brand

1. Cost approaches
2. Income approach
3. Market approach

## Accounting standards

Accounting standards are written policy documents issued by expert accounting body or by government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions in the financial statements

## Benefits and disadvantages of accounting standards

Benefits	Disadvantages
1. Comparability of accounting statements	1. Lack of flexibilities
2. Standardization of alternative accounting Treatments	2. Difficulties in making choice between different treatments
3. Requirements of additional disclosures	3. Restricted Scope