Accounting Standard 14 – "Accounting for Amalgamations"

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Introduction

- This standard deals with accounting for amalgamations and the treatment of any resultant goodwill or reserves.
- This standard is directed principally to companies although some of its requirements also apply to financial statements of other enterprises.
- This standard does not deal with cases of acquisitions which arise when there is a purchase by one company of the whole or part of the shares, or the whole or part of the assets, of another company

Types of Amalgamation

- There are two main methods of accounting for amalgamations:
    - the pooling of interests method
    - the purchase method
- Pooling of Interest method is appropriate in case of amalgamation in the nature of merger.
- Purchase method is appropriate in other cases.

Conditions for amalgamation in nature of merger

- All the assets and liabilities of the transferor company are transferred to transferor 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
- Consideration is discharged by the transferee company wholly by issue of equity shares except 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 except to ensure uniformity of accounting policies.

Pooling of Interest Method

- Assets, liabilities and reserves taken over are recorded at their existing carrying amounts.
- 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
- Identity of the reserves is preserved
- The difference between the amount recorded as share capital issued (plus any additional consideration in the form of cash or other assets) and the amount of share capital of the transferor company is adjusted.
- The balance of the P&L Account appearing in the financial statements of the transferor company is aggregated with the corresponding balance appearing in the financial statements of the transferee company
- Goodwill or Capital Reserve does not arise under pooling of interest method.

Purchase Method

- Asset and liabilities of the transferor company should be incorporated at their existing carrying amounts or consideration should be allocated to asset and liabilities on the basis of their fair values at the date of amalgamation.
- The reserves other than statutory reserves loses its identity and hence it not included in the financial statement of the amalgamated company.
- Difference between the amount of consideration and value of the net asset taken over results in either in Goodwill (in case consideration is excess) or in Capital Reserve (in case value of net asset is excess).
- The goodwill arising on amalgamation should be amortised to income on a systematic basis over its useful life.

Factors to be considered in determining the useful life of Goodwill

- foreseeable life of the business or industry
- effects of product obsolescence, changes in demand and other economic factors
- service life expectancies of key individuals or groups of employees
- expected actions by competitors or potential competitors
- legal, regulatory or contractual provisions affecting the useful life

Treatment in Reserve as per the Scheme sanctioned

- The scheme of amalgamation sanctioned under the provisions of the Companies Act, 2013 or any other statute may prescribe the treatment to be given to the reserves of the transferor company after its amalgamation.
- In such cases, the following disclosures are made in the first financial statements following the amalgamation:
  - A description of the accounting treatment given to the reserves and the reasons thereof
  - Deviations in the accounting treatment given to the reserves as prescribed by the scheme of amalgamation sanctioned
  - Financial effect, if any, arising due to such deviation.

Disclosures

- In first financial statements after amalgamation (to be given in every case):
  - names and general nature of business of the amalgamating companies
  - effective date of amalgamation for accounting purposes
  - method of accounting used to reflect the amalgamation
  - particulars of the scheme sanctioned under a statute

- In case of pooling of interest method:
  - description and number of shares issued, together with the percentage of each company's equity shares exchanged to effect the amalgamation
  - the amount of any difference between the consideration and the value of net identifiable assets acquired and its treatment

Disclosures

- In case of purchase method:
  - consideration for the amalgamation and a description of the consideration paid or contingently payable
  - the amount of any difference between the consideration and the value of net identifiable assets acquired, and its treatment
  - Period of amortisation of any goodwill arising on amalgamation

- In case of amalgamation after Balance sheet date:-
  - Disclosures of the amalgamation should be made in accordance with AS – 4

Thank You