K.T.S.P. Mandal's

# Hutatma Rajguru Mahavidyalaya

Rajgurunagar – 410505

Second Year B.Com

IIIrd – Sem (CBCS 2019 Pattern)
As per the new Syllabus

## Subject – Corporate Accounting - I

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# *Topic 1 – Accounting Standards 14 & 21*

# Accounting Standard – 14

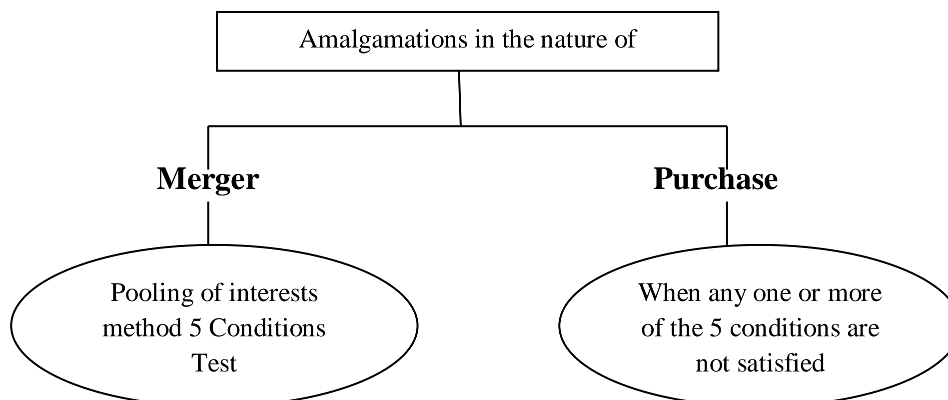
## "Accounting for Amalgamation"

This Standard deals with accounting for amalgamations and the treatment of any resultant goodwill or reserves.

This standard does not deal with cases of acquisitions which arise when there is a purchase by one company (referred to as the acquiring company) of the whole or part of the shares, or the whole or part of the assets, of another company (referred to as the acquired company) in consideration for payment in cash or by issue of shares or other securities in the acquiring company or partly in one form and partly in the other. The distinguishing feature of an acquisition is that the acquired company is not dissolved and its separate entity continues to exist.

**Transferor Company means the company which is amalgamated into another company.**

**Transferee Company means the company into which a transferor company is amalgamated.**




Test for 5 conditions- For Merger

- 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 face value of equity shares of the transferor company become equity shareholders of the transferee company.
- Consideration to equity shareholders of the transferor company is discharged by the transferee company wholly by the issue of equity shares, except that cash may be paid in respect of any fractional shares.
- Intention of the transferee company is to continue the business of the transferor company.
- Transferred assets and liabilities are recorded in the books of the transferee company at book values of the transferor company except to ensure uniform accounting policies.

**Methods of Accounting-Transferee company's financial statements –**

| | **Pooling of Interest Method** | **Purchase Method** |
|---|---|---|
| Applicability | Amalgamation in the nature of merger. | Amalgamation in the nature of purchase. |
| Assets and liabilities | Recorded at their existing carrying amounts (after making adjustments to ensure uniform accounting policies). | Option 1: Recorded at their existing carrying amounts. Option 2: Consideration to be allocated to individual identifiable assets and liabilities on the basis of their fair values at the date of amalgamation. |
| Reserves | Identity of reserves is preserved. | Only statutory reserves are recorded by debit to amalgamation adjustment account. |
| Difference between amount of purchase consideration and value of net assets of the transferee company | Difference between amount of purchase consideration and value of net assets of the transferee company Not relevant. Instead, difference between the amount recorded as share capital (plus any additional consideration in the form of cash or other assets) and the amount of share capital of the transferee company is adjusted in reserves of the transferee company. Recorded as goodwill or capital reserve. | Recorded as goodwill or capital reserve. |
| Amortisation of Goodwill | No goodwill will arise. | Goodwill to be amortised over a period not exceeding 5 years unless a longer period is justified. |

If a scheme of amalgamation sanctioned under a Statute prescribes a different treatment to the reserves of the transferor company after amalgamation as compared to the requirements of this Standard, the same should be followed with the following disclosures:

(a) A description of the accounting treatment given to the reserves and the reasons for following the treatment different from that prescribed in this Standard.

(b) Deviations in the accounting treatment given to the reserves as compared to the requirements of this Standard that would have been followed had no treatment been prescribed by the scheme.

(c) The financial effect, if any, arising due to such deviation.

The above requirement is not applicable to any scheme of amalgamation approved under the Companies Act, 2013.

## Accounting Standard – 21

## "Consolidated Financial Statements"

The objective of this Standard is to lay down principles and procedures for preparation and presentation of consolidated financial statements. These statements are intended to present financial information about a parent and its subsidiary(ies) as a single economic entity to show the economic resources controlled by the group, obligations of the group and results the group achieves with its resources.

This Standard should also be applied in accounting for investments in subsidiaries in the separate financial statements of a parent.

A subsidiary is an enterprise that is controlled by another enterprise (known as the parent).

A parent is an enterprise that has one or more subsidiaries.

A group is a parent and all its subsidiaries. Control

(a) The ownership, directly or indirectly through subsidiary (ies), of more than one half of the voting power of an enterprise; or

(b) Control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise so as to obtain economic benefits from its activities

Consolidated financial statements are the financial statements of a group presented as those of a single enterprise.

Minority interest is that part of the net results of operations and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiary(ies), by the parent.

- A parent which presents consolidated financial statements should present these statements in addition to its separate financial statements.
- A parent which presents consolidated financial statements should consolidate all subsidiaries, domestic as well as foreign, other than the following exclusions.
- A subsidiary should be excluded from consolidation when:
  a) control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future; or
  b) it operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent.
  In the consolidated financial statements, investments in such subsidiaries should be accounted for in accordance with AS 13.

- Reasons for not consolidating a subsidiary should be disclosed in the consolidated financial statements.
- Where an enterprise does not have a subsidiary but has an associate and/or a joint venture such an enterprise should also prepare consolidated financial statements in accordance with AS 23, Accounting for Associates in Consolidated Financial Statements, AS 27, Financial Reporting of Interests in Joint Ventures, respectively.
- Consolidated financial statements normally include consolidated balance sheet, consolidated Statement of Profit and Loss, and notes, other statements and explanatory material that form an integral part thereof. Consolidated Cash Flow Statement is presented in case a parent presents its own Cash Flow Statement. The consolidated financial statements are presented, to the extent possible, in the same format as that adopted by the parent for its separate financial statements.

**Consolidation Procedures –**

- Financial statements of the parent and its subsidiaries should be combined on a line by line basis by adding together like items of assets, liabilities, income and expenses.
- Cost of parent's investment in subsidiary and the parent's portion of equity on date of investment should be eliminated.
- Computation of goodwill/Capital Reserve
  Goodwill - Costs of parent's investment in subsidiary > Parent's portion of equity on date of investment
  Capital Reserve - Costs of parent's investment in subsidiary < Parent's portion of equity on date of investment
- Minority Interests
  - Minority interests in the net income of consolidated subsidiaries forϖ the reporting period should be identified and adjusted against the income of the group in order to arrive at the net income attributable to the owners of the parent.
  - Minority interests in the net assets of consolidated subsidiariesϖ should be identified and presented in the consolidated balance sheet separately from liabilities and the equity of the parent's shareholders.
- Intragroup balances and intragroup transactions should be eliminated along with resulting unrealised profits in full. Unrealised losses resulting

**Accounting Standards : Quick Referencer**

From intragroup transactions should also be eliminated unless cost cannot be recovered.

- The financial statements used in the consolidation should be drawn up to the same reporting date. If it is not practicable, adjustments should be made for the effects of significant transactions or other events that occur between those dates and the date of the parent's financial statements. In any case, the difference between reporting dates should not be more than six months.

- Consolidated financial statements should be prepared using uniform accounting policies for like transactions and other events in similar circumstances. If not practicable, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.
- The tax expense (comprising current tax and deferred tax) to be shown in the consolidated financial statements should be the aggregate of the amounts of tax expense appearing in the separate financial statements of the parent and its subsidiaries.

**Discontinuance of consolidation –**

- The results of operations of a subsidiary with which parent-subsidiary relationship ceases to exist are included in the consolidated Statement of Profit and Loss until the date of cessation of the relationship.
- The difference between the proceeds from the disposal of the investment in a subsidiary and the carrying amount of its assets and liabilities as of the date of disposal is recognised in the consolidated Statement of Profit and Loss as the profit or loss on the disposal of the investment in the subsidiary.
- An investment in an enterprise should be accounted for in accordance with AS 13 from the date that the enterprise ceases to be a subsidiary and does not become an associate. The carrying amount of the investment at the date it ceases to be a subsidiary is regarded as cost thereafter.

**Accounting for investment in subsidiaries in parent’s separate financial statements**

In parent’s separate financial statements, investment in subsidiaries should be accounted for in accordance with AS 13.