**ACCOUNTING STANDARD 14 – ACCOUNTING FOR AMALGAMATION**

In general meaning Amalgamation implies blending of two or more existing entities into one, during the blending process blended entities losing their identities and forming into one separate legal entity having its sole identity. Amalgamation could be done either by the transfer of two or more existing entity to new entity or by the transfer of one or more undertaking to an existing company.

This standard deals with accounting for amalgamation and the treatment of goodwill or reserves and AS-14 includes the direction for amalgamation of companies although it’s some of the provisions also applies to other entities. It is important to understand the difference between the word Amalgamation and Acquisition.

There are two methods of amalgamation viz. “**Amalgamation in the nature of Purchase” and “Amalgamation in the nature of merger”.**  
Acquisition includes the purchase of whole or part of the shares or whole or part of the assets of another company in consideration of cash or the payment by way of issuing the securities or partly by one method and partly by other method. The distinguishing feature of the acquisition is that during this process the company who is acquired does not loss its existence as separate entity.

NOTE that the standards of accounting of amalgamation do not apply to the rules of acquisition.

**DEFINITION:-**

TRANSFEROR COMPANY: Company which is amalgamated into another company.  
  
TRANSFREE COMPANY: A company into which a transferor company is amalgamated.

RESERVE: It is that portion of earning, receipt or other incomes of the enterprise which is attributable to some general or specific purpose other than provision for depreciation.

**AMALGAMATION IN THE NATURE OF MERGER**: If it satisfies all the conditions mentioned below:

All the assets and liabilities of the transferor become the assets and liabilities of the transferee, after amalgamation. Not less than 90% of the equity shareholder agrees to become the shareholders of the transferee company. Consideration for the equity shareholders of the transferor company who agrees to become the shareholders of the transferee company is discharged wholly through the payment by way of issue of equity shares or other securities or a combination of both, only the fraction of the share could be paid by way of cash. Business of the transferor company is intended to be carried out, after amalgamation by the transferee company No adjustment is intended to be made in the book value of the assets and liabilities of the transferor company when they are included in the financial statement of the transferee company except to ensure uniformity in the accounting policies.  
  
**AMALGAMATION IN THE NATURE OF PURCHASE:** If any one of the above mentioned condition get dissatisfied, then such amalgamation will be treated as the amalgamation in the nature of purchase.

CONSIDERATION: Any payment made by the transferee to the transferor by way of equity shares of the transferee company or any other security or by way of cash or other assets by the transferee company to the shareholders of the transferor company.

FAIR VALUE: Fair value is the amount for which a assets could be exchanged between the transferor and transferee.

POOLING OF INTEREST METHOD: This is a method of accounting for the amalgamation the purpose of which is to account for amalgamation as if Transferee Company continued to be operated as separate entity. Accordingly, only minimal changes can be done in the financial statement of the amalgamating companies.

**TREATMENT OF SOME OF THE ITEMS AT THE TIME OF AMALGAMATION:**

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| **S. No.** | **PARTICULAR** | **AMALGAMTION IN THE NATURE OF MERGER** | **AMALGAMATION IN THE NATURE OF PURCHASE** |
| 1 | RESERVE | The identity of the reserves shall continue to exist in books of the transferee company as they appear in books of the transferor whether it is a capital reserve, statutory reserve, general reserve, revaluation reserve.  Reserves which are available for distribution as dividend would continue to exist in the books of account in the same manner and for the same purpose as they appear in the books of transferor.  The difference between the share capital and other consideration in the form of cash and other and the share capital of transferor company is to be adjusted in the reserves in the financial statement of transferee. | The identity of all other reserves shall not continue except the statutory reserve, the reserve mentioned under Income tax act 1961 e.g. development allowance reserve, investment allowance reserve etc.  The entry shall be recorded by debiting the Amalgamation Reserve Account and crediting the relevant statue account.  When the identity of the reserve is no longer required to be shown then the following entry for recording shall be reversed.  In amalgamation process goodwill shall be created if consideration is more than the net asset value of the transferor company and in other case the value shall be negative resulting capital reserve. |
| 2 | BALANCE OF PROFIT AND LOSS ACCOUNT | The balance of profit and loss account as appearing in the financial statement of the transferor company shall be aggregated in the similar amount of the transferee company or else shall be aggregated into general reserves if any. | The profit and loss account balance, whether debit or credit, shall disappear. |