ADVANCED CORPORATE ACCOUNTING

(For Undergraduate Classes)

B.S. RAMAN, M.Com.,
Head of the Dept. of Commerce (Retd.),
St.Aloysius College,
MANGALORE-575003

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PREFACE

This Text-Book of **Corporate Accounting** is specially prepared for the B.Com., B.B.A students of Various University. It is prepared in accordance with the syllabus given in this book.

I do not claim any originality in the subject-matter of this book. I have drawn immense material from many standard books on this subject. Yet, this book is original in the exposition and presentation of the subject-matter. The subject-matter has been dealt with exhaustively and in very simple language.

I express my profound gratitude to my well-wishers for their encouragement in the preparation of this book. I am also thankful to **United Publishers, Mangalore,** for bringing out this book.

I shall consider my efforts amply rewarded if this book is found useful by the teachers and the students.

Suggestions for improvement of this book will be gratefully accepted.

Mangalore,

B.S. Raman

SYLLABUS

CORPORATE ACCOUNTING

Unit –1: **Accounting for Amalgamation:** Meaning of Amalgamation – Provisions of AS14 - Merger and Acquisition, Methods of Accounting for Amalgamation (a) Poooling interest method (b) Purchase method. Meaning and methods of computing Purchase Consideration, Ledger accounts in the books of Transferor Company-Opening entries and Balance Sheet in the books of Transferee Company.

Unit – 2 : **Internal Reconstruction :** Meaning and objectives of Internal Reconstruction - Methods of Internal Reconstruction - Accounting entries for Internal Reconstruction under Capital Reduction Method.

Unit – 3: Accounting for Banking Companies (as per new regualtions)

Unit – 4: Accounting for Life Insurance Companies (as per IRDA Regulations)

Unit – 5: Accounting for General Insurance Companies (as per IRDA Regulations) (Fire and Marine)

Unit – 6: Accounting for Holding Companies: Preparation of Consolidated Balance sheet of Holding with one subsidiary - Minority Interest - Computation of Goodwill/Capital Reserve –Revaluation of Assets of Subsidiary.

CONTENTS

UNIT I : ACCOUNTING FOR AMALGAMATION

General Meaning of Amalgamation of Companies:

In a general sense, the term 'amalgamation of companies' refers to the formation of a new company to take over the business of two or more existing companies, the latter companies (i.e., the vendor companies) being wound up in the process. In other words, when two or more existing companies carrying on similar business go into liquidation and form themselves into a new company to take over their existing business, the arrangement or process is called amalgamation of companies. For instance, if two existing companies, say, A Co. Ltd. and B Co. Ltd. wind up their business and form a new company, C Co. Ltd. to take over their existing business, the process is called amalgamation of companies. In short, "two or more liquidations, and one formation" constitute the essence of amalgamation.

Legal Meaning of Amalgamation of Companies :

However, in a legal sense (i.e., as per the Companies Act,) the term 'amalgamation' is not just restricted to amalgamation in the general sense. It includes absorption also. It includes even external reconstruction. So, legally, amalgamation refers to coming together of two or more existing companies to form a new company or the taking over of one or more existing company or companies by another existing company or the taking over of an existing company by a new company specially formed for the purpose. In short, legally, amalgamation includes all those cases where there is transfer of business by one or more companies to another company, whether existing or newly-formed.

The legal meaning of amalgamation is recognised by the Accounting Standard (AS)-14 issued by the Institute of Chartered Accountants of India. As per the Accounting Standard - 14, amalgamation means amalgamation pursuant to the provision of the Companies Act, 1956 or any other statute which may be applicable to companies. As per this definition, amalgamation means merging of two or more existing companies to form a new company or taking over of one company by another company.

It may be noted that, as per the Accounting Standard - 14, amalgamation includes amalgamation, absorption and external

reconstruction, and so, the accounting for amalgamation, absorption and external reconstruction is the same. That is why, the accounting for amalgamation, absorption and external reconstruction is just called accounting for amalgamation.

Objectives of Amalgamation :

The objectives of amalgamation are:

(i) To secure the economies of large-scale operations.

(ii) To avoid the disastrous results of cut-throat competition.

(iii) To gain control over the market.

TYPES OF AMALGAMATION

As per the Accounting Standard - 14, amalgamation is of two types. They are:

(a) Amalgamation in the nature of merger.

(b) Amalgamation in the nature of accquisition or purchase.

(a) Amalgamation in the Nature of Merger:

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

(i) **All the assets and all the liabilities of the transferor company (i.e., the company which is amalgamated into another company) become, after the amalgamation, the assets and liabilities of the transferee company (i.e., the company into which transferor company is amalgamated).**

(ii) **Shareholders 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 the equity shareholders of the transferee company by virtue of the amalgamation.**

(iii) **The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become the 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).**

(iv) **The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.**

(v) **No adjustments are 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 or practices.** That is, if, at the time of the amalgamation, the transferor and transferee companies have conflicting accounting policies, a uniform set of accounting policies should be adopted following the amalgamation. The effects, on the financial statements, of any changes in accounting policies should be recorded in accordance with **Accounting Standard - 5, "Prior Period and Extraordinary Items and Changes in Accounting Policies".**

In this type of amalgamation, there is genuine pooling of assets and liabilities of the combining (i.e., amalgamating) companies. In addition, the equity shareholders of the combining companies continue to have a proportionate share in the combined (i.e., amalgamated) company. The accounting treatment of this type of amalgamation is required to ensure that the resultant figures of assets, liabilities, capital and reserves more or less represent the sum of relevant figures of the combining or amalgamating companies.

(b) Amalgamation in the Nature of Acquisition or Purchase:

Amalgamation in the nature of purchase is an amalgamation which does not satisfy all the five conditions specified for amalgamation in the nature of merger.

This type of amalgamation is in effect a mode by which one company acquires another company.

The important features of amalgamation in the nature of purchase are :

(i) **All the assets and liabilities of the transferor company do not become the assets and liabilities of the transferee company after amalgamation.**

(ii) **The assets and liabilities of the transferor companies are incorporated in the books of the transferee company at adjusted values, and not at book values.**

(iii) **The consideration for amalgamation is not given by the transferee company wholly in the form equity shares. It may be given in the form of cash, debentures with or without equity shares of the transferee company. So, the equity shareholders**

of the amalgamating companies do not continue to have a proportionate share in the equity of the amalgamated company.

(iv) **The business of the amalgamating companies is not intended to be continued after the amalgamation.**

Differences between Amalgamation in the Nature of Merger and Amalgamation in the Nature of Purchase:

There are some differences between amalgamation in the nature of merger and amalgamation in the nature of purchase. They are:

(i) In the case of amalgamation in the nature of merger, there is genuine merger or pooling of all assets, liabilities and shareholders' interests of amalgamating companies. But in the case of amalgamation in the nature of purchase, there is no genuine pooling of assets, liabilities and shareholders' interests of the amalgamating companies.

(ii) In the case of amalgamation in the nature of merger, the business of the transferor company or companies is continued by the transferee company. On the other hand, in the case of amalgamation in the nature of purchase, the business of the transferor company or companies may or may not be continued by the transferee company.

(iii) In the case of amalgamation in the nature of merger, the shareholders of the transferor company or companies have proportionate share in the equity of the transferee company. On the other hand, in the case of amalgamation in the nature of purchase, the shareholders of the transferor company, normally, do not continue to have a proportionate share in the equity of the transferee company.

(iv) The accounting treatment for amalgamation in the nature of merger differs from the accounting treatment for amalgamation in the nature of purchase in the books of the transferee company.

(v) Under amalgamation in the nature of merger, the difference between the purchase consideration and the net assets taken over by the transferee company is adjusted in the general reserve account or profit and loss account, and it is not treated as goodwill or capital reserve. But in the case of amalgamation in the nature of purchase, the difference between the purchase consideration and the net assets taken over is treated as goodwill or capital reserve.

METHODS OF ACCOUNTING FOR AMALGAMATION

There are two methods of accounting for amalgamation. They are (i) Pooling of Interests Method and (ii) Purchase Method.

The pooling of interests method is used in accounting for amalgamation in the nature of merger, and the purchase method is used in accounting for amalgamation in the nature of purchase.

Features of Pooling of Interests Method:

The important features of the pooling of interests method are:

(a) **Recording of the assets and liabilities of the transferor company in the books of the transferee company:**

The assets and liabilities of the transferor company should be recorded in the books of the transferee company at their existing carrying amounts and in the same form as they are found at the date of amalgamation. So, the assets and liabilities of the transferor company should be merged with the corresponding assets and liabilities of the transferee company in the financial statements of the transferee company.

(b) **Recording of the reserves (whether capital or revenue or arising on revaluation) of the transferor company in the books of the transferee company:**

The reserves (whether capital or revenue) or arising on revaluation of the transferor company should be recorded in the books of the transferee company at their existing carrying amounts and in the same form as they are found at the date of amalgamation. (So, the reserves of the transferor company should be combined with the corresponding reserves of the transferee company in the financial statements of the transferee company.)

(c) **Recording of the profit and loss account balance of the transferor company in the books of the transferee company:**

In the books of the transferee company, the profit and loss account balance of the transferor company should be clubbed (i.e., combined) with the corresponding balance (i.e., the profit and loss account balance) of the transferee company, or should be transferred to the general reserve of the transferee company, if any.

(d) **No accounting for goodwill or capital reserve resulting from incorporation of assets, liabilities, reserves and profit and loss account balance of transferor company:**