CMR
INSTITUTE OF
TECHNOLOGY

USN | | | | | | | | | | |

Internal Assesment Test - III

Sub:	Mergers and Aquisitions							Code:	14MBAFM407
Date:	19.6.17	Duration:	90 mins	Max Marks:	50	Sem:	IV	Branch:	MBA

		Marks	OBE CO	OBE RBT
	Part A - Write short notes on any two (3*2=6 Marks)			
1 (a)	Define "Amalgamation"	[03]	CO3	L1
(b)	What is Purchase Considerations?	[03]	CO2	L2
(c)	Describe the content of scheme of Merger and Amalgamations.	[03]	CO1	L1
	Part B - Answer any two (2*7=14)			
2 (a)	Discuss the features of pooling of Interest methods.	[07]	CO2	L5
(b)	How journal entries are passed in the books of transferor Company?	[07]	CO1	L2
(c)	Explain the Tax Implications of Merger and Acquisitions under Income Tax Act, 1961.	[07]	CO3	L3
	Part C - Answer any two (2*10= 20 marks)			
3 (a)	Summarizes the regulations of combinations as per Competitions Act 2002.	[10]	CO3	L3
(b)	What is Purchase Considerations as per the Accounting Standard 14? Explain the methods of its calculations.	[10]	CO2	L3
(c)	The balance sheet of x ltd on 31.3.2015 was as follows:	[10]	CO1	L3

Liabilities	Amount	Assets	Amount
Share cap: 8500 share of Rs10 each fully paid	85000	Land and Buil	2,10,000
12% Debenture	2,00,000	Plant	1,30,000
Outstanding interest on debenture	30,000	Sundry debtors	80,000
Sundry creditors	70,000	Debenture fund invest	50000
General reserve	45,000	Cash	5000
Debenture redemption fund	35,000	Preliminary exp	20,000
p/L account	30000		
Total	4,95,000		4,95,000

Y ltd absorbs X ltd on the following basis:

1. Y take over sundry creditors
2. Y take over L/B, Plant and investment at 20% of book values, sundry debtors 80% of book value and goodwill at 35000.

3. Liability to debtors holders including interest to be met by issue of Rs 2500000, 15% debenture by Y ltd .

Part D - Compulsory (1*10=10/2*5=10 marks)

4 . The Balance Sheet of A&B Ltd as at 31.03.08 are as follows.

Liabilities	A Ltd	B ltd	Assets	A Ltd	B ltd
Equity share of Rs 10 each	20,00,000	12,00,000	Sundry Assets	30,00,000	14,00,000
General reserve	4,00,000	2,20,000	40,000 equity share in A Ltd	Nil	4,00,000
Creditors	6,00,000	3,80,000			
Total	30,00,000	18,00,000	Total	30,00,000	18,00,000

[10] CO1 L4

A ltd absorbed B ltd. on the basis of intrinsic value of the share. The purchase considerations are to be discharged in fully paid up equity share. A sum of Rs 1,00,000 is owed by A ltd to B ltd, also include in stock of A ltd is Rs 1,20,000 goods supplied by B ltd at the cost plus 20% .

CO3 L4

Give the journal entries in the books of both the companies.

Course Outcomes		PO1	PO2	PO3	PO4	PO5	PO6	PO7	PO8	PO9
CO1:	To facilitate understanding of corporate merger and acquisition activity.									
CO2:	To examine the role of M&A play in the contemporary world and its use of strategic tools									
CO3:	To compare and contrast the various forms of corporate restructing .				1a,2 b,2c	3a,3 c,				
CO4:	To provide the students analysing transaction including strategic rational deal structure bidding strategies				1b,1 c	4a,4 b				
CO5:	To access the human and cultural aspects.									
CO6:										

Cognitive level	KEYWORDS
L1	List, define, tell, describe, identify, show, label, collect, examine, tabulate, quote, name, who, when, where, etc.
L2	summarize, describe, interpret, contrast, predict, associate, distinguish, estimate, differentiate, discuss, extend
L3	Apply, demonstrate, calculate, complete, illustrate, show, solve, examine, modify, relate, change, classify, experiment, discover.
L4	Analyze, separate, order, explain, connect, classify, arrange, divide, compare, select, explain, infer.
L5	Assess, decide, rank, grade, test, measure, recommend, convince, select, judge, explain, discriminate, support, conclude, compare, summarize.

PO1 - *Engineering knowledge*; PO2 - *Problem analysis*; PO3 - *Design/development of solutions*; PO4 - *Conduct investigations of complex problems*; PO5 - *Modern tool usage*; PO6 - *The Engineer and society*; PO7- *Environment and sustainability*; PO8 – *Ethics*; PO9 - *Individual and team work*; PO10 - *Communication*; PO11 - *Project management and finance*; PO12 - *Life-long learning*

Answer Key- Merger and Acquisition:

1. Amalgamation is defined as the combination of one or more companies into a new entity. It includes: A. Two or more companies join to form a new company B. Absorption or blending of one by the other

   Thereby, amalgamation includes absorption.

2. Purchase consideration is the amount which is paid by the transferee company for the purchase of the business of the transferor company. In other words consideration for amalgamation means me aggregate of the shares and other securities issued and payment in cash or other assets by the transferee company to the shareholders of the transferor company. It should not include the amount of liabilities taken over by the transferee company, which will be paid directly by this company.

3. The terms of amalgamation are finalized by the board of directors of the amalgamating companies.A scheme of amalgamation is prepared and submitted for approval to the respective High Court.Approval of the shareholders' of the constituent companies is obtained followed by approval of SEBI.A new company is formed and shares are issued to the shareholders' of thetransferor company.The transferor company is then liquidated and all the assets and liabilities are taken over by the transferee company.

4. Pooling of Interests Method:
   Through this accounting method, the assets, liabilities and reserves of the transferor company are recorded by the transferee company at their existing carrying amounts.

   Purchase Method:

In this method, the transferee company accounts for the amalgamation either by incorporating the assets and liabilities at their existing carrying amounts or by allocating the consideration to individual assets and liabilities of the transferor company on the basis of their fair values at the date of amalgamation.**Computation of purchase consideration:** For computing purchase consideration, generally two methods are used:Purchase Consideration using net asset method: Total of assets taken over and this should be at fair values minus liabilities that are taken over at the agreed amounts.Agreed value means the amount at which the transferor company has agreed to sell and the transferee company has agreed to take over a particular asset**Purchase**

consideration using payments method: Total of consideration paid to both equity and preference shareholders in various forms.

Example: A. Ltd takes over B. Ltd and for that it agreed to pay Rs 5,00,000 in cash. 4,00,000 equity shares of Rs 10 each fully paid up at an agreed value of Rs 15 per share. The Purchase consideration will be calculated as follows:

5. OURNAL ENTRIES IN BOOKS OF TRANSFEROR COMPANY AND TRANSFEREE COMPANY

IN THE BOOKS OF TRANSFEROR COMPANY(SELLING COMPANY)

Accounting standard 14 is not applicable for selling company.

Accounting is done with the objective of closing books of accounts and simultaneous determination of profit or loss on closing books of accounts.

Transfer to realization account

SL.NO	PARTICULAR	DEBIT	CREDIT
1	Transfer all Assets at book value to realization a/c (except Miscellaneous) Realisation A/C Dr To Assets A/c	XXX	XXX
2	Transfer all liabilities taken over purchasing company(Except equity, preference and reserves) Liabilities A/c Dr To Realisation A/c	XXX	XXX

PURCHASE CONSIDERATION

Purchase consideration represents consideration paid in cash, shares, debentures etc.

SL.NO	PARTICULAR	DEBIT	CREDIT
1	Due entry for consideration Transferee company A/C Dr To Realisation A/c	 XXX 	 XXX
2	Receipt of consideration Shares/Cash A/c Dr To Transferee company A/c	 XXX 	 XXX

SALE OF ASSETS NOT TAKEN OVER BY PURCHASING COMPANY

SL.NO	PARTICULAR	DEBIT	CREDIT
1	Sale with assuming profit Bank A/C Dr To Assets A/C(book value) To Realisation A/c(Profits)	 XXX 	 XXX XXX
2	Sale with assuming loss Bank A/c Dr Realisation A/c(loss) Dr To Assets A/c(Book Value)	 XXX XXX 	 XXX

SETTLEMENT OF LIABILITIES NOT TAKEN OVER BY PURCHASING COMPANY

SL.NO	PARTICULAR	DEBIT	CREDIT
1	Settlement with assuming at discount) Liabilities A/C Dr To Bank A/C(book value)	 XXX 	 XXX

	To Realisation A/c(Profits)		XXX
2	Settlement with assuming at loss Liabilities A/c Dr Realisation A/c(loss) Dr To Bank A/c(Book Value)	XXX XXX	XXX

Realisation Expense

SL.NO	PARTICULAR	DEBIT	CREDIT
1	Incurred by transferor(Selling Co.) company Realisation A/c To Bank A/c	XXX	XXX
2	Incurred by transferee(purchasing Co.) company NO ENRTY	NIL	NIL
3	Incurred by transferor(Selling Co.) company Reimbursed by transferee company Transferee company A/c Dr To Bank A/c On Reimbursement Bank A/c Dr To Transferee company A/c	XXX XXX	XXX XXX

AMOUNT DUE TO EQUITY SHAREHOLDERS

SL.NO	PARTICULAR	DEBIT	CREDIT
1	Transfer of share capital and reverse to shareholders account Equity Share capital A/c Dr Reserves A/c Dr To Shareholders A/c	XXX XXX	XXX
2	Transfer of balances in realization account Realisation A/c (Profit) Dr To shareholders A/c In Case of loss Shareholders A/c Dr To Realisation A/c (Loss)	XXX XXX	XXX XXX

6. Under Income Tax Act, 1961 Section 2(1B) of Income Tax Act defines 'amalgamation' as merger of one or more companies with another company or merger of two or more companies to from one company in such a manner that:- All the property of the amalgamating company or companies immediately before the amalgamation becomes the property of the amalgamated company by virtue of the amalgamation. All the liabilities of the amalgamating company or companies immediately before the amalgamation becomes the liabilities of the amalgamated company by virtue of the amalgamation Shareholders holding at least three-fourths in value of the shares in the amalgamating company or companies (other than shares already held therein immediately before the amalgamated company or its nominee) becomes the shareholders of the amalgamated company by virtue of the amalgamation. (Example: Say, X Ltd merges with Y Ltd in a scheme of amalgamation and immediately before the amalgamation, Y Ltd held 20% of shares in X Ltd, the above mentioned condition will be satisfied if shareholders holding not less than 75% in the value of remaining 80% of shares in X Ltd i.e. 60% thereof, become shareholders in Y Ltd by virtue of amalgamation) The motive of giving this definition is that the benefits/concession under Income Tax Act, 1961 shall be available to both amalgamating company and amalgamated company only when all the conditions, mentioned in the said section, are satisfied. 'Amalgamating company' means company which is merging and 'amalgamated company' means the company with which it merges or the company which is formed after merger. However, acquisition of property of one company by another is not 'amalgamation'.

INTRODUCTION:

Chapter II of the Competition Act, 2002 '(Act' for short) deals with the prohibition of certain agreements, abuse of dominant position and regulation of combination by Competition Commission of India

('Commission' for short). In this article the regulation of combination by the Commission is discussed with reference to the provisions in this Act.

DEFINITION:

Sec.5 of the Act gives the definition of the term 'combination'. The acquisition of one or more enterprise by one or more persons or merger or amalgamation of enterprises shall be a combination of such enterprises and persons or enterprises. The same would be amount to combination if-

(a) Any acquisition where-

(i) the parties to the acquisition, being the acquirer and the enterprises, whose control, shares, voting rights or assets have been acquired or are being acquired jointly have-

(A) Either, inIndia, the assets of the value of more than Rs.1000 crores or turnover more than Rs.3,000 crores; or

(B) InIndiaor outsideIndiain aggregate, the assets of the valued more than $500 million, including at least Rs.500 crores inIndia, or turnover more than $15,000 million, including at least Rs.1500 crores inIndia; or

(ii) the group, to which the enterprise whose control, shares, assets or voting rights have been acquired or are being acquired, would belong after the acquisition, jointly have or would jointly have-

(A) Either inIndia, the assets of the value of more than Rs.4000 crores or turnover more than Rs.12000 crores; or

(B) Inundator outsideIndia, in aggregate, the assets of the value of more than $ 2billion, including at least Rs.500 crores inIndia, or turnover more than $6 billion, including at least Rs.1500 crores inIndia; or

(b) Acquiring of control by a person over an enterprise when such person has already direct or indirect control over another enterprise engaged in production, distribution or trading of a similar or identical or substitutable goods or provision of a similar or identical or substitutable service, if-

(i) The enterprise over which control has been acquired along with the enterprise over which the acquirer already has direct or indirect control jointly have-

(A) Either in India, the assets of the value of more than Rs.1,000 crores or turnover more than Rs.3,000 crores; or

(B) in India or outside India, in aggregate of the value of more than $500 million, including at least Rs.5000 crores in India, or turnover more than $1500 million, including at least Rs.1500 crores in India; or

(ii) The group, to which enterprise whose control has been acquired, or is being acquired, would belong after the acquisition, jointly have or would jointly have-

(A) Either inIndia, the assets of the value of more than Rs.4000 crores or turnover more than Rs.12000 crores; or

(B) in India or outside India, in aggregate, the assets of the value of more than $2 billion, including at least Rs.500 crores in India, or turnover more than $6 billion, including at least Rs.500 crores in India; or any merger or amalgamation in which-

(i) The enterprise remaining after merger or the enterprise created as a result of the amalgamation, as the case may be, have-

(A) Either inIndia, the assets of the value of more than Rs.1000 crores or turnover more than Rs.3000 crores; or

(B) in India or outside India, in aggregate, the assets of the value of more than $500 million, including at least Rs.500 crores in India, or turnover more than $1500 million, including at least Rs.1500 crores in India; or

(ii) The group, to which the enterprise remaining after the merger or the enterprise created as a result of the amalgamation, would belong after the merger or the amalgamation, as the case may be, have or would have-

(A) Either inIndia, the assets of the value of more thanRs.4000 crores or turnover more than Rs.12000 crores; or

(B) in India or outside India, in aggregate, the assets of the value of more than $ 2 billion, including at least Rs.500 crores in India, or turnover more than $6 billion including at least Rs.1500 crores in India.

The said section gives explanation to the terms ‘control’, ‘group’ and for the value of assets.

The term ‘control’ includes controlling the affairs or management by one or more enterprises, either jointly or singly, over another enterprise or group; or one or more groups, either jointly or singly over another group or enterprise.

The term ‘group’ means two or more enterprises which, directly or indirectly, are in a position to exercise 26% or more of the voting rights in the other enterprise or appoint more than 50% of the members of the board of the directors of the enterprise or control the management or affairs of the other enterprise.

The value of assets shall be determined by taking the book value of the assets as shown, in the audited books of account of the enterprise, in the financial year immediately preceding the financial year in which the date of proposed merger falls, as reduced by any depreciation, and the value of assets that include the brand value, value of goodwill, or value of copyright, patent, permitted use, collective mark, registered proprietor, registered trade mark, registered user, homonymous geographical indication, geographical indications, design or layout-design or similar other commercial rights, if any referred to in Sec. 5(3).