

Indicate the correct answer.

(1) As per AS – 14 purchase consideration is what is payable to

- (a) Shareholders
- (b) Creditors
- (c) Debentureholders
- (d) Shareholders and Debentureholders

Ans. (a) Shareholders

(2) When amalgamation is in the nature of merger, the accounting method to be followed is:

- (a) Equity method
- (b) Purchase method
- (c) Pooling of interests method
- (d) Consolidated method

Ans. (c) Pooling of interests method

(3) When amalgamation is in the nature of Purchase, the accounting method to be followed is:

- (a) Equity method
- (b) Purchase method
- (c) Pooling of interests method
- (d) Consolidated method

Ans. (b) Purchase method

(4) Amalgamation is said to be in the nature of merger if:

- (a) All assets and liabilities of transferor company are taken over by the transferee company.
- (b) Business of transferor company is intended to be carried on by the transferee company.
- (c) Purchase consideration must be paid in equity shares by the transferee company except for fraction shares.

(d) All of the above

Ans. (d) All of the above

(5) Amalgamate adjustment account is opened in the books of transferee company to incorporate:

(a) The assets of the transferor company

(b) The liabilities of the transferor company

(c) The statutory reserves of the transferor company

(d) The non – statutory reserves of the transferor company

Ans. (c) The statutory reserves of the transferor company

(6) Goodwill arising on amalgamation is to be

(a) Retained in the books of the transferee company

(b) Amortised to income on a systematic basis normally five years

(c) Adjusted against reserves or profit and loss account balance

(d) All of the above

Ans. (b) Amortised to income on a systematic basis normally five years

(7) Under pooling of interest method the difference between the purchase consideration and share capital of the transferee company should be adjusted to:

(a) General reserve

(b) Amalgamation adjustment account

(c) Goodwill or capital reserve

(d) None of the above

Ans. (a) General reserve

(8) Under purchase method the difference between the purchase consideration and share capital of the transferee company should be adjusted to:

(a) General reserve

(b) Amalgamation adjustment account

- (c) Goodwill or capital reserve
- (d) None of the above

Ans. (c) Goodwill or capital reserve

(9) For amalgamation in the nature of merger, the shareholders holding at least _____ or more of the equity shares of the transferor company becomes the equity shareholders of the transferee company.

- (a) 51%
- (b) 90%
- (c) 99%
- (d) 100%

Ans. (b) 90%

(10) AS – 14 is not applicable if when transferee company acquires transferor company and transferor company:

- (a) Ceases to exist
- (b) Separate entity is Continue to exist
- (c) Applied in all cases
- (d) None of the above

Ans. (b) Separate entity is Continue to exist

(11) A Ltd. and B Ltd. go into liquidation and a new company X Ltd. is formed. It is a case of:

- (a) Absorption
- (b) External reconstruction
- (c) Amalgamation.

Ans.(c) Amalgamation.

(12) X Ltd. goes into liquidation and a new company Z Ltd. is formed to take over the business of X Ltd. It is a case of:

- (a) Absorption
- (b) External reconstruction
- (c) Amalgamation.

Ans.(b) External reconstruction

(13) X Ltd. goes into liquidation and an existing company Z Ltd. purchases the business of X Ltd. It is a case of:

- (a) Absorption
- (b) External reconstruction
- (c) Amalgamation.

Ans.(a) Absorption

(14) Accumulated profits include:

- (a) Provision for doubtful debts
- (b) Superannuation fund
- (c) Workmen's compensation fund.

Ans.(c) Workmen's compensation fund.

(15) Liabilities (not accumulated profits) of a company include—

- (a) General reserve
- (b) Pension fund
- (c) Dividend equalisation fund.

Ans. (b) Pension fund

(16) When the expenses of liquidation are to be borne by the vendor company, then the vendor company debits:

- (a) Realisation account
- (b) Bank account
- (c) Goodwill account.

Ans. (a) Realisation account

(17) When the expenses of liquidation are to be borne by the purchasing company, then the purchasing company debits:

- (a) Vendor company's account
- (b) Bank account
- (c) Goodwill account.

Ans. (c) Goodwill account.

(18) When the purchasing company makes payment of the purchase consideration, it debits:

- (a) Business purchase account
- (b) Assets account
- (c) Vendor company's account.

Ans. (c) Vendor company's account.

(19) The vendor company transfers preliminary expenses (at the time of absorption) to:

- (a) Equity shareholders' account
- (b) Realisation account
- (c) Purchasing company's account.

Ans. (a) Equity shareholders' account

(20) For paying liabilities not taken over by the purchasing company, the vendor company credits:

- (a) Realisation account
- (b) Bank account
- (c) Liabilities account.

Ans. (b) Bank account

(21) In case of inter-company holdings, the purchasing company, at the time of payment of the purchase consideration, surrenders the shares in the vendor company by crediting:

- (a) Vendor company's account

(b) Shares in the vendor company account

(c) Share capital account.

Ans.(b) Shares in the vendor company account

(22) The share capital, to the extent already held by the purchasing company, is closed by the vendor company by crediting it to:

(a) Share capital account

(b) Purchasing company's account

(c) Realisation account.

Ans.(c) Realisation account.

Fill in the blanks.

1. When there is one liquidation and one formation it is know as External reconstruction.

2. When there is two liquidation and one formation it is know as Amalgamation.

3. When there is one or more liquidation and no formation it is know as Acquisition.

4. Under merger method The assets and liabilities of transferor company can be changed only to ensure uniformity of accounting policies.

5. Under the pooling of interest method , the transferee company incorporates the assets and liabilities of the transferor company at Book Value.

6. Under the purchase method of amalgamation, the transferee company incorporates the assets and liabilities of the transferor company at fair value.

7. Miscellaneous expenditure is transferred to Realisation account in the books of the transferor company.

8. Under the pooling of interest method, shares are issued by the transferee company at Par.

9. Amalgamation adjustment account is shown under the head Miscellaneous expenditure of the balance sheet.

10. When the transferee company hold shares in the transferor company, the set off entry in the books of the transferor company is made by crediting the transferee company and debiting the Shareholders account.

State whether the following statements are TRUE or FALSE.

1. The process of two or more companies combining to form a new company is called absorption.

False

2. When the transferee company decides to compensate the transferor company on the basis of fair values of the assets and liabilities, the method of computing the purchase consideration is termed as “Net payment method”. **False**

3. As per AS – 14 purchase consideration is the amount agreed to different interests like shareholders, debentureholders, creditors etc. **False**

4. Goodwill arising on amalgamation as per AS – 14 is to be retained in the books of the company.

False

5. Under pooling of interest method, the transferee company incorporates only the liabilities and assets of the transferor company. **False**

6. In calculating purchase consideration under net assets method, all assets including fictitious assets should be considered. **False**

7. Goodwill or capital reserve arises only when the amalgamation is in the nature of merger. **False**