Module 5 · Business Restructuring P15 · topics 5.1–5.6

SM pp. 258–288 (exercise 289–292). **Q4(a): one 7-mark restructuring sum in 5 of the last 6 papers — never the same type twice running**: amalgamation (D23), company → LLP (D24), firm → company (J25), demerger (D25), slump sale (J26 = MQP Q4(a)). Proprietor → company has never come. Expected ~7 marks.

Type	Asked	Due in Dec'26?	Pattern in these notes
Amalgamation (5.1)	D23 Q4(a) (losses, speculation loss, 35AD loss, depreciation)	★★ due; s.72A changed (Jun'26 supp)	SM Illustration 1 + 72A table
Demerger (5.2)	D25 Q4(a), J23 Q6(a); D23 Q3(b) theory	★	SM Illustration 2 (Dona)
Slump sale (5.3)	J26 Q4(a) = MQP Q4(a); PTP Q4(a), postal Q8(a)	least likely (just asked)	SM Illustration 3
Proprietor → company (5.4)	never	★★ "never asked"	conditions + Illustration 6
Firm → company (5.5)	J25 Q4(a)	★	SM Illustration 5
Company → LLP (5.6)	D24 Q4(a)	★	SM Illustration 8

HOW TO ANSWER ANY Q4(a)

1. Name the restructuring and its **definition / conditions** (2(1B), 2(19AA), 2(42C), 47(xiii), (xiv), (xiiib)).
2. Say who is exempt (company / shareholder / partner) and **what is not exempt** (stock → business income).
3. Compute: cost / net worth / capital gain / depreciation split / losses carried forward.
4. Breach later? Exemption **withdrawn** in the year of breach (47A).

Analysis advice: Q4 is the question to drop if you must — but learn all six patterns below, one page each.

MAP OF THIS MODULE

1. Amalgamation: 2(1B), 47(vi)/(vii), 49, 72A ★★★
2. Demerger: 2(19AA), cost split 49(2C)/(2D), 72A(4) ★★★
3. Slump sale: 2(42C), 50B net worth ★★
4. Proprietor → company 47(xiv) ★★
5. Firm → company 47(xiii), 47A(3) ★★
6. Company → LLP 47(xiiib), 47A(4), 72A(6A) ★★
7. Buy-back 46A, s.170, 170A ★
8. Revision sheet

A Amalgamation (5.1) · D23 Q4(a)

- **s.2(1B)**: merger of companies so that **all assets and liabilities** pass and shareholders holding **not less than 75% in value** of shares (excluding those already held by the amalgamated company / nominee / subsidiary) become its shareholders. Not by purchase of property or distribution after winding up. [SM 258]
- **Shareholder** (47(vii)): no transfer if he gets shares of an **Indian** amalgamated company; cost = cost of old shares (49(2)); holding period includes the old shares. [SM 259]
- **Company** (47(vi)): transfer of assets to an Indian amalgamated company not a transfer; 47(via) / (viab) foreign-to-foreign of Indian shares (at least **25%** shareholders continue, no foreign CG tax). [SM 259–260]
- **Amalgamated company**: cost of non-depreciable assets = previous owner's (49(1)); block's actual cost = WDV of the amalgamating company (Expl. 2 to 43(6)); year's depreciation split by **days**; asset sold as stock — cost of the amalgamating company (43C). [SM 261]
- **s.35DD**: amalgamation / demerger expenses deducted **1/5th** a year for 5 years; 35(5), 35ABB, 35D, 35DDA continue. [SM 264]

s.72A · LOSSES OF THE AMALGAMATING COMPANY

Who / test	Condition
Eligible amalgamating company	owns an **industrial undertaking** (manufacture, software, power, telecom, mining, ships / aircraft / rail), a ship or a hotel; or banking company with a specified bank; PSU with PSU; erstwhile PSU (within **5 years**) [SM 262]
Amalgamating company	in the loss business for **three or more years**; held at least **¾th** of the book value of fixed assets held two years before [SM 263]
Amalgamated company	holds ¾th of those assets and continues the business for **5 years**; Rule 9C: reach **50%** of installed capacity within **4 years** and keep it to year 5; Form No. 62 [SM 263]
Effect	non-speculative loss and unabsorbed depreciation deemed the amalgamated company's; breach → set-offs taxed in the year of breach [SM 264]

JUN'26 SUPPLEMENTARY · ss. 72A / 72AA

The loss is carried forward for not more than **8 assessment years** from the year it was **first computed for the original predecessor** — no fresh 8 years. The SM's text (SM 264) already says this, but **SM exercise MCQ 1** still keys "loss of the year of amalgamation" (fresh life) — answer with the supplementary. [SM 264, SM 289] [Supp J26 p.15]

WORKED PATTERN · SM ILLUSTRATION 1 (MR. JOSEPH: SHAREHOLDER OF THE AMALGAMATING COMPANY) — RE-WORKED BY SCRIPT

1,000 shares of X Ltd bought by grandfather-in-law Z on 18/08/2000 @ ₹20 (gift → will → Joseph); X Ltd amalgamated with Y Ltd on 31/03/2013, **3 for 2**; 1,000 Y shares sold on 2/10/2025 @ ₹75. Cost = previous owner's: 1,000 × 20 = ₹20,000 for **1,500** shares → ₹13.33 each; holding period counts from 2000 → **LTCG** = 75,000 − 13,330 = **₹61,670**. [SM 264–265]

Practise: D23 Q4(a) · SM M5 case 2 (ABC with XYZ: depreciation on transfer value disallowed, hint ₹9.75 lakhs) and case 4 (SM 290–292) · SM short essays 1–2 · **ICMAI workbook Ch 4 illustration 2**.

B Demerger (5.2) · D25 Q4(a), J23 Q6(a)

- **s.2(19AA)** (scheme u/s 230–232): all assets and liabilities of the undertaking pass; at **book value** (revaluation ignored; Ind AS exception); resulting company issues **its shares proportionately**; holders of **not less than 75%** in value become its shareholders; **going concern**; notified conditions. "Undertaking" includes a unit / division / business activity, not single assets. [SM 266–267]
- Liabilities transferred: of the undertaking, its specific loans, and a share of **general borrowings** = general loans × book value of assets transferred ÷ total book value of assets. [SM 267]
- No CG for the company (47(vib), Indian resulting company) or the shareholder (47(vid)); foreign demergers 47(vic) / (vicc) with **¾th** continuity. [SM 268, SM 270–271]
- **Cost of resulting-company shares** (49(2C)) = cost of original shares × net book value of assets transferred ÷ **net worth** (paid-up capital + general reserves) of the demerged company; **cost of demerged-company shares** (49(2D)) = original cost − that amount; holding period from the original purchase. [SM 268–269]
- Resulting company: actual cost of assets limited to the demerged company's **WDV**; depreciation of the year split by days; **losses** directly relatable to the undertaking go to the resulting company, others split in the ratio of assets transferred and retained (72A(4)). [SM 271]

WORKED PATTERN · SM ILLUSTRATION 2 (DONA) — RE-WORKED BY SCRIPT

Assets of Division Y: land 2,50,000 + plant 1,00,000 + stock 2,30,000 + debtors 45,000 + cash 75,000	7,00,000
− specific loan 75,000 − creditors 40,000 − general loan (₹2,00,000 × ₹7,00,000) / ₹14,00,000 = 1,00,000	2,15,000
Net asset taken over → 4,850 shares; Dona (10%)	**485 shares**
Cost of Y (P) shares = (600 × ₹150) × ₹4,85,000 ÷ (₹6,00,000 + ₹4,00,000)	₹43,650
Cost of XY (P) shares after demerger = 90,000 − 43,650	₹46,350
STCG: 200 XY @ ₹125 (25,000 − 15,450) · 100 Y @ ₹110 (11,000 − 9,000)	9,550 · 2,000

Practise: D25 Q4(a) (Tall / Salt: Unit A net worth ₹20 crores of ₹50 crores → 40% of the original cost goes to the Salt shares) · J23 Q6(a) · D23 Q3(b) (slump sale vs demerger for a loss-making division) · **ICMAI workbook Ch 4 illustration 2**. [SM 269–270]

C Slump sale (5.3) · J26 Q4(a) = MQP Q4(a)

- **s.2(42C)**: transfer of an undertaking for a **lump sum** without values assigned to individual assets. [SM 272]
- **Sale consideration** = higher of FMV 1 (FMV of the capital assets transferred) and FMV 2 (FMV of the consideration). **Cost** = **net worth**; no indexation. [SM 272]
- **Held more than 36 months** → LTCG (even if some assets are new); otherwise STCG. [SM 272]
- **Net worth** = assets − book liabilities: **revaluation ignored**; self-generated goodwill nil; depreciable assets at **WDV** (IT Act); 35AD assets nil; others at book value. [SM 272–273]
- Stock does not create business income; losses / depreciation stay with the transferor; CA report Form **3CEA** one month before the due date. [SM 273]

WORKED PATTERN · SM ILLUSTRATION 3 (X LTD, ₹ LACS) — RE-WORKED BY SCRIPT

Land 50 (book; stamp value ignored) + stock 30 + debtors 40	120
Machinery (IT WDV) 60 + furniture (IT WDV) 90	150
− creditors	50
Net worth = cost	**220 lacs**
Consideration: higher of 300 and FMV 350	350 lacs
− brokerage 5% of ₹300 lacs	15 lacs
LTCG (held more than 3 years)	**115 lacs**

⚠ SM solved case (Laxmi Ltd): the balance sheet shows Unit X liabilities ₹400 lakhs, the solution deducts ₹300 lakhs (net worth 600, gain 500). On the balance-sheet figure: net worth 500, gain 600. State your figure.

Practise: J26 Q4(a) · MQP Q4(a) · PTP Q4(a) · postal Q8(a) · SM solved case (SM 287–288) · SM case 1 (Padmaja, hint net worth ₹7,00,000, loss ₹3,90,000) and case 3 (Kite & Co.) · PTP MCQ (ix) · **ICMAI workbook Ch 4 illustration 3**.

D Conversions: proprietor / firm → company, company → LLP (5.4–5.6)

	Proprietor → company 47(xiv)	Firm → company 47(xiii)	Company → LLP 47(xiiib)
Assets	all assets and liabilities of the business pass [SM 276–277, SM 282]		
Holders	proprietor holds **not less than 50%** of voting power for **5 years**	all partners become shareholders in their **capital ratio**; together **not less than 50%** for **5 years**	all shareholders become partners in the shareholding ratio; their profit share **not less than 50%** for **5 years** [SM 276–277, SM 282]
Consideration	only shares (no other benefit)		only profit share and capital contribution; no payout of accumulated profit for **3 years** [SM 282]
Size test	–		turnover ≤ **₹60 lakh** and assets ≤ **₹5 crore** in each of the 3 preceding years [SM 282]
Breach	47A(3): exempted gain taxed in the **successor company** in the year of breach [SM 277]		47A(4): taxed in the LLP / shareholder in the year of breach [SM 282–283]
Losses	72A(6): predecessor's loss and unabsorbed depreciation pass for the remaining life [SM 281]		72A(6A): same for the LLP [SM 285]

- **Stock** transferred at a profit is business income of the firm / proprietor (exemption is only for capital assets). Company's cost of assets = previous owner's (49(1)); depreciation of the year split by **days** (s.170 assessment split at succession). [SM 276, SM 278–279, SM 285]
- **SM Illustration 5** (M/s ABC): partners sold all shares within 5 years → in the company's hands in A.Y. 2027-28: LTCG on investments **₹2,00,000** (2,50,000 − 50,000) and STCG on machinery **₹20,000** (1,20,000 − WDV 1,00,000); stock profit ₹20,000 is the firm's business income. [SM 278]

- **SM Illustration 6** (QQ Trading): depreciation ₹63,000 split 153 : 212 days → concern **₹26,408**; company 36,592 + 12,000 on its own new plant = **₹48,592**. [SM 279]
- **SM Illustration 8** (Handoo & Handoo, assets moved at market value → conditions not met): company taxed on LTCG land ₹40,00,000, investments ₹8,00,000, STCG building ₹17,00,000, machinery ₹4,00,000; each shareholder gets 27,25,000 (7,50,000 as dividend) → LTCG **₹17,25,000**; LLP's later land sale LTCG **₹53,00,000**. [SM 283–284]

Revision sheet · Module 5 (glance page)

Item	Rule / number	Item	Rule / number
Amalgamation 2(1B)	all assets + liabilities; ≥ 75% in value of shareholders join	Shareholder	47(vii) no CG; cost and holding period carried over
72A eligibility	industrial undertaking / ship / hotel; bank; PSU	72A conditions	3 years in business; ¾ assets held 2 years before; ¾ held 5 years after; 50% capacity in 4 years; Form 62
72A loss life	8 AYs from original year (Jun'26 supp)	35DD	1/5 for 5 years
Demerger 2(19AA)	book value; proportionate shares; ≥ 75%; going concern	Cost split	original cost × net assets transferred ÷ (capital + general reserve)
General loans	× assets transferred ÷ total assets	Demerger losses	direct → resulting co.; others in asset ratio
Slump sale	consideration = higher of FMV 1 / FMV 2; cost = net worth; > 36 months = LTCG	Net worth	no revaluation; WDV for depreciable; self-goodwill nil; Form 3CEA
47(xiv) / 47(xiii)	≥ 50% voting for 5 years; only shares; capital ratio (firm)	47(xiiib)	≥ 50% profit share 5 years; ₹60 lakh / ₹5 crore; no payout 3 years
Breach	47A(3) successor company · 47A(4) LLP / shareholder	Depreciation	split by days in the year
46A buy-back	receipt = dividend (other sources); cost = capital loss [SM 285]	170A	successor's modified return (ITR-A) within 6 months from the end of the month of the order [SM 286]

MEMORY HOOKS

- **"75 to merge, 75 to split, 50 for 5 to convert"**.
- 72A: **"3 years old, ¾ kept, 5 years more, 50% capacity by year 4"**.
- Slump sale: **"36 months, net worth, no revaluation"**.

CONVERSIONS · PRACTISE THESE · TRAPS

- **Practise**: J25 Q4(a) (firm → company; partner sells early; debentures as consideration break the condition) · D24 Q4(a) (company → LLP; time a shareholder's exit to keep losses) · SM Illustrations 5–9 (SM 278–287) · SM numerical problem (RST Co., answers ₹52,816 and ₹97,184, SM 289) · **ICMAI workbook Ch 4 illustration 1** (proprietor → company depreciation) and **2**.
- **Traps**: debentures / cash to partners = "other consideration" → exemption lost; proprietor needs 50% **himself**; LLP route only for small companies (₹60 lakh / ₹5 crore); a shareholder leaving after conversion is fine for the LLP's 50% test only while the 50% holds.

SM M5 EXERCISE MCQs

1. Loss of the amalgamating company: key (b) "loss of the year of amalgamation" — **⚠ now: remaining life within 8 AYs of the original loss year (Jun'26 supp)**. [SM 289] [Supp J26 p.15]
2. Depreciation in the year of restructuring: **apportioned by number of days**. [SM 289]