UNIT-IV (Amalgamation of Companies)

Amalgamation : Amalgamation is defined as the combination of one or more companies into a new entity. Instead, a completely new entity is formed to house the combined assets and liabilities of both companies. It includes:

i. Two or more companies join to form a new company
ii. Absorption or blending of one by the other

Types of Amalgamation

i. Amalgamation in the nature of merger:

In this type of amalgamation, not only is the pooling of assets and liabilities is done but also of the shareholders' interests and the businesses of these companies. In other words, all assets and liabilities of the transferor company become that of the transfer company. In this case, the business of the transfer or company is intended to be carried on after the amalgamation. There are no adjustments intended to be made to the book values. The other conditions that need to be fulfilled include that the shareholders of the vendor company holding at least 90% face value of equity shares become the shareholders' of the vendee company.

ii. Amalgamation in the nature of purchase:

This method is considered when the conditions for the amalgamation in the nature of merger are not satisfied. Through this method, one company is acquired by another, and thereby the shareholders' of the company which is acquired normally do not continue to have proportionate share in the equity of the combined company or the business of the company which is acquired is generally not intended to be continued.

Objectives and Advantages of Amalgamation:

a. Eliminate competition : Companies at times amalgamate with the object of avoiding competition among themselves. This will give the company an edge over its competitor.
b. Tax savings : The amalgamated company can derive financial gain which may be in the form of tax advantage, higher credit worthiness and lower rate of borrowing.
c. Economies of large scale operations : The amalgamated company can derive the operating cost advantage through lowering the cost of production. This is possible because of economies of large scale operations.
d. Increase shareholders value : The amalgamated company increases the value of the company. It increases the shareholders value of the company.

e. Diversification : The risk of a company can be lowered by diversifying its activities into two or more industries. At times, amalgamation may act as hedging the weak operation with a stronger one.
f. Managerial effectiveness : Effectiveness is the degree of attainment of a predetermined goal. An amalgamated company can pool its intellectual resources to achieve managerial effectiveness.
g. To achieve growth and gain financially : The amalgamated company can pool its resources to facilitate internal growth and to prevent the advent of a new competitor.
h. To acquire cash resources : The amalgamated company acquire the cash resources of other company which increases the cash resources of the amalgamated company.

Accounting of Amalgamation:

A. Pooling of Interests Method:

Through this accounting method, the assets, liabilities and reserves of the transfer or company are recorded by the transferee company at their existing carrying amounts.

B. Purchase Method:

In this method, the transfer 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 transfer or company on the basis of their fair values at the date of amalgamation.

Disadvantages of Amalgamation :

- Amalgamation may lead to elimination of healthy competition.
- Reduction of employees may take place.
- There could be additional debt to pay.
- Business combination could lead to monopoly in the market, which is not always positive.
- The goodwill and identity of the old company is lost.

Difference between Pooling of Interest Method and Purchase Method :

Basis for Comparison	Pooling of Interest Method	Purchase Method
Meaning	Pooling of Interest Method of accounting is one in which the assets, liabilities and reserves are combined and shown at their	Purchase Method, is an accounting method, wherein the assets and liabilities of the transferor company are shown at

	historical values, as of the date of amalgamation.	their market value in the books of the transferee company, as of the date of amalgamation.
Applicability	Merger	Acquisition
Assets and liabilities	Appear at book values.	Appear at fair market values.
Recording	All the assets and liabilities of the companies undergoing merger are aggregated.	Only those assets and liabilities are recorded in the books of transferee company, which are taken over by it.
Reserves	The identity of transferor company's reserves is kept intact.	The identity of the transferor company's reserves except statutory reserves is not kept intact.
Purchase Consideration	Difference in the amount of purchase consideration and share capital is adjusted with reserves.	Surplus of deficit of purchase consideration over the net asset acquired, should be credited or debited, as capital reserves or goodwill.

Difference between Amalgamation in the nature of merger and Amalgamation in the nature of purchase :

Basis for Comparison	Amalgamation in the nature of merger	Amalgamation in the nature of purchase
Transfer of Assets and Liabilities	There is transfer of all assets & liabilities.	There is transfer of all assets & liabilities.
Equity Shareholder's holding 90%	Equity shareholders holding 90% equity shares in transferor company become shareholders of transferee company.	Equity shareholders need not become shareholders of transferee company.
Purchase Consideration	Purchase consideration is discharged wholly by issue of equity shares (except cash for fractional shares)	Purchase consideration need not be discharged wholly by issue of equity shares.
Same Business	The same business of the transferor company is intended to be carried on by the transferee company.	The business of the transferor company need not be intended to be carried on by the transferee company.
Recording of Assets & Liabilities	The assets & liabilities taken over are recorded at their existing carrying amounts except where adjustment is required to ensure	The assets & liabilities taken over are recorded at their existing carrying amounts or the basis of their fair values.

	uniformity of accounting policies.	
Recording of Reserves of Transferor Co.	All reserves are recorded at their existing carrying amounts and in the same form.	Only statutory reserves are recorded at their existing carrying amounts.
Recording of Balance of Profit & Loss A/c of Transferor	The balance of P&L A/c should be aggregated with the corresponding balance of the transferee co. or transferred to the General.	The balance of P&L A/c losses its identity and is not recorded at all.