TOPIC- AMALGAMATION OF COMPANIES

(1) What do you mean by amalgamation?

Answer: Sometimes, 2 or more companies engaged in the same line of activity, production or trading decide to combine their business for obtaining internal and external economies or to get assured supply of raw materials or for better channels of marketing or to eliminate competitions from the market or to avoid duplication of wasteful expenditure. Again, the companies may also combine for diversification of activities or for expansion of services such as banking, transport , communication and so on. Such business combination is generally termed as 'Amalgamation'.

According to Oxford English Dictionary ,' to amalgamate means to join together to form a single organization'. It means blending of 2 or more existing business enterprises to carry the existing or expanded or new business activities.

(2) What do you mean by business combination?

Answer: Business combination is the bringing together of separate enterprises into 1 economic entity as a result of one enterprise uniting with or obtaining control over the net assets and operations of another enterprise. In India, amalgamation is used in the same sense as Business Combination is used in the USA.

(3) What do you mean by absorption?

Answer: If an existing company sells its entire business to another existing company where only the transferee company retains its identity and the transferor company is dissolved, then it is called an absorption.

(4) What do you mean by acquisition?

Answer: If an existing company is acquired by another company where the acquiree continues with its legal and economic identity, it is a case of acquisition.

(5) What do you mean by transferor company?

Answer: Transferor company means the company which is amalgamated into another company.

(6) What do you mean by transferee company?

Answer: Transferee company means a company into which a transferor company is amalgamated.

(7) What do you mean by reserve?

Answer: Reserve means the portion of earnings , receipts or other surplus of an enterprise appropriated by the management for a general or a specific purpose other than a provision for depreciation or diminution in the value of assets or for a known liability.

(8) What are the types of amalgamation?

Answer: According to AS-14 amalgamation is divided into the following 2 categories for accounting purposes:

1. Amalgamation in the nature of merger.
2. Amalgamation in the nature of purchase.

(9) What are the objectives of amalgamation?

Answer: Following are the objectives of amalgamation:

a. Avoidance of Competition= Companies at times amalgamate with the object of avoiding competition among themselves. This will give the company an edge over its competitors.
b. Cost reduction= The amalgamated company can derive the operating cost advantage through lowering the cost of production . This is possible because of ' economies of large scale'.
c. Financial Gain= The amalgamated company can derive financial gain which may be in the form of tax advantage, higher credit worthiness and lower rate of borrowing.
d. Achieving Growth= The amalgamated company can pool its resources to facilitate internal growth and to prevent the advent of new competitor.
e. Diversification= The risk of a company can be lowered by diversifying its activities into 2 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 pre-determined goal. An amalgamated company can pool its intellectual resources to achieve managerial effectiveness.

(10) When is an amalgamation considered as amalgamation in the nature of merger?

Answer: The amalgamations where there is a genuine pooling not merely of the assets and liabilities of the amalgamating companies but also of the shareholders' interests and of the businesses of these companies are called ' amalgamation in the nature of merger'.

An amalgamation which satisfies all of the following conditions is considered as amalgamation in the nature of merger:

I. All the assets and liabilities of the transferor company becomes the assets and liabilities of the transferee company.
II. Shareholders holding not less than 90% of the face value of the equity shares of the transferor company become 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 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 adjustment is 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.

(11) When an amalgamation is considered as amalgamation in the nature of purchase?

Answer: An amalgamation is considered to be in the nature of purchase when any 1 or more of the 5 conditions specified for amalgamations in the nature of merger is not satisfied. In this type of amalgamation, one company acquires another company and the equity shareholders of the combining entities do not continue to have a proportionate share in the equity of the combined entity or the business of the company which is acquired is not intended to be continued after the amalgamation.

(12) What are the different basis / methods of arriving at purchase consideration or consideration for amalgamation?

Answer: The different basis for calculating the consideration for amalgamation is discussed below:

a. **Lump Sum Method= Where the terms of amalgamation provide for payment of a specified sum of money, the consideration for amalgamation will be taken at that sum. For e.g., the total consideration for amalgamation payable by X Ltd is Rs 200000 which is to be discharged by issue of 15000 equity shares of Rs10 each , fully paid and the balance in cash. It is known as lump sum method of purchase consideration.**
b. **Intrinsic value of share method= Where the terms of amalgamation provide for payment of consideration on the basis of intrinsic value of shares of the transferor company, it is known as Intrinsic value of share method or payment of consideration for amalgamation. In such a case, the amount of consideration payable will be ascertained as under:**

Number of shares of Transferor Company X Intrinsic value of shares of Transferor Company.

C. Share Exchange Method= Sometimes the transferee company takes over the business of transferor company on the basis of ratio in which the shares of the transferee company are to be exchanged for the shares of the transferor company.

d. Net assets method= Under this method, the amount of purchase consideration is determined on the basis of agreed value of assets and liabilities taken over. The amount payable by the transferee company is determined as follows:

Assets Taken Over ****
Less: Liabilities
Taken over ****
Value of Net Assets taken
Over being the amount
Of purchase consideration

13) Distinguish between amalgamation in the nature of merger and amalgamation in the nature of purchase.

Answer : Following are the distinctions :

Points	Amalgamation in the Nature of Merger	Amalgamation in the Nature of Purchase
1. Nature	This is a type of combination of two business entities in which either one entity loses its identity or both of the amalgamating entities lose their existence to form a new firm.	This is a type of purchase of one business entity by another one in which the entity that takes over the other entity retains its identity and the entity, which is being taken over loses its identity and existence.
2. Applicable Condition	Accounting Standard 14 has set five conditions to be satisfied in full for deciding an Amalgamation to be in the Nature of Merger.	According to Accounting Standard 14 if any one of the five conditions applicable for Amalgamation in the Nature of Merger is not satisfied then the Amalgamation will be in the Nature of Purchase.

Points	Amalgamation in the Nature of Merger	Amalgamation in the Nature of Purchase
3.Protection of share holders' Interest	Shareholders' Interest in the amalgamated company will be more or less proportionate to their interest in the combining companies.	Interest of the shareholders of the transferor company normally do not have proportionate share in the equity of the transferee company.
4. Continuity of business after amalgamation	Business of the transferor company is intended to be carried on after the amalgamation, by the transferee company.	Business of the transferor company may not be intended to be carried on after the amalgamation.
5.Taking over of assets and liabilities.	In case of merger, all assets and liabilities of the transferor company are taken over by the transferee company.	In case of purchase, all assets and liabilities of the transferor company may or may not be taken over by the transferee company.
6. Values of assets and liabilities in the amalgamated company.	The assets and liabilities of the transferor company are incorporated in the financial statements of the transferee company at the book values. No adjustment is made to the book values except to ensure uniformity in accounting policies.	Assets and liabilities of the amalgamating companies may be revalued or may not be revalued while incorporating the items in the books of accounts of the transferee company.
7. Settlement of consideration	The consideration is called 'Consideration for Amalgamation' and is settled by the issue of shares, except that cash may be paid in respect of any fractional shares.	The consideration is called 'Purchase Consideration' and is settled in any form, by issue of shares/debentures, or payment of cash or both.

(14) Distinguish the pooling of interest method and the purchase method.

Answer: Following are the distinctions:

Distinction between the Pooling of Interest Method and the Purchase Method:

Points of distinction	Pooling of Interest Method	Purchase Method
1. Application	This method is applied when the amalgamation is in the nature of a merger.	This method is applied when the amalgamation is in the nature of a purchase.
2. Treatment of difference between the consideration paid and the share capital of the transferor company.	If the amount of consideration to be paid to the transferor company is different to its share capital, then the difference is adjusted in general reserve or other reserves of the transferee company.	The transferee company treats the excess of the consideration paid over the net assets taken over as Goodwill and the shortfall of the consideration paid over the net assets as Capital Reserve.
3. Valuation of assets and liabilities in the amalgamated company.	The assets and liabilities of the transferor company are incorporated in the financial statements of the transferee company at book values. No adjustment is made to the book values except to ensure uniformity in accounting policies.	Assets and liabilities of the amalgamating companies may be revalued or may not be revalued while incorporating the items in the books of accounts of the transferee company.
4. Incorporation of items in the books of the amalgamated company.	The transferee company records not only the assets and liabilities but also the reserves of the transferor company at book values in its books of accounts.	The transferee company records only the assets and liabilities taken over in its books of accounts. Only the statutory reserves of the transferor company are aggregated with those of the transferee company.
5. Recording of statutory reserve.	Statutory Reserve is incorporated in the books of the transferee company like all other reserves. No Amalgamation Adjustment Account is opened by the transferee company.	Only the statutory reserves of the transferor company, are recorded by the transferee company by debiting the Amalgamation Adjustment Account and crediting Statutory Reserve Account.