

## Amalgamation

## Companies

# *"Where there is amalgamation...*

# there is confusion."

- Anonymous

## Lets understand some baesicks

Basis	Amalgamation	Merger	Acquisition	External Reconstruction
Meaning	A new company takes over business of 2 or more companies	Combination of 2 or more companies into a single company where only one survives and the other loses its existence.	Existing company takes over business (acquires major control) of 1 or more company.	A newly formed company takes over an existing company.
Types	Purchase / Merger	Absorption / Consolidation	Hostile / Freindly	-
Minimum no. of Companies	Atleast 3	Atleast 2	Atleast 2	Only 2
No. of New Companies formed	Only 1	Only 1	No new company	Only 1
Objective	Cut competition and reach higher economies of scale.	Cut competition and reach higher economies of scale.	Cut competition, reach higher economies of scale and goodwill.	To re-organize the financial structure of business
Example	A Ltd and B Ltd. forming C Ltd.	A Ltd and B Ltd forming AB Ltd.	A Ltd. acquires over 50% stake in the business of B Ltd.	B Ltd has formed to take over business of A Ltd.

## What is Amalgamation?



- Blending of two or more companies into a new undertaking.
- Two Companies unite and form a larger entity with high expertise, expansion or diversification.
- During Amalgamation, usually the merging companies dissolve and lose their individual existence. However, they again jointly re-establish themselves by forming a new company having a unique name.
- Amalgamation can be by way of absorption or consolidation.

## **Types of Amalgamation**

## I. <u>Amalgamation in the nature of merger</u>:

All assets and liabilities of transferor company become the assets and liabilities of transferee company.

Business of the transferor company is carried on by the transferee conpany after amalgamation.

Shareholders holding not less than 90% face value of equity shares of the transferor company become the shareholders of the transferee company.

Consideration receivable by equity shareholders (from TR to TE) is discharged wholly by issue of equity shares. Cash is paid in case of fractional shares.

No adjustments to be made in Book Value of transferor's assets and liabilities when incorporated in the financial statements of transferee company.

## II. <u>Amalgamation in nature of purchase</u>:

Amalgamation in the nature of purchase is when transferor's business is discontinued after amalgamation.

This means the shareholders of the transferor company no longer have a proportionate share in the combined equity of the parties to the amalgamation.

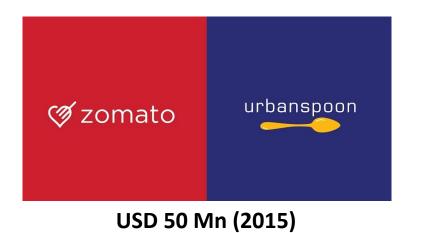
Arises when none of the conditions of amalgamation in the nature of merger is satisfied.

## **Worldwide Cases of mergers and acquisitions**

- UltraTech Cement-Jaypee Group | Deal size: Rs 16,189 crore (2016)
- Ola and TaxiForSure | Deal size: USD 200 million (2015)
- Flipkart and Myntra | Deal size: USD 300 million (2014)
- Tata Steel and Corus Group | Deal size: USD 12 billion (2007)
- Tata Motors and Jaguar Land Rover | Deal size: USD 2.3 billion (2008)
- Suzion and RE Power | Deal size: USD 1.7 billion (2007)
- RIL and RPL Merger | Deal size: USD 1.6 billion (2002)
- Amazon and Whole Foods | Deal size: USD 13.7 billion (2017)
- Apple and Shazam | Deal size: USD 400 million (2017)
- Verizon and Yahoo | Deal size: USD 4.48 billion (2016)
- Google and Youtube | Deal size: USD 1.65 billion (2006)
- Google and Motorola | Deal size: USD 12.5 billion (2006) and
- \* Google sold Motorola to Lenovo for USD 2.9 billion and called it a success deal
- Google and Nest Labs | Deal size: USD 3.2 billion (2014)



USD 16 Bn (2014)







Source: yourstory, moneycontrol, nasdaq, ET

## Extra Stuff

## Horizontal Merger

Merging of two competing companies serve the same market and selling the same product.

Lipton India & Brooke bond, Bank of Mathura with ICICI Bank, BSES Ltd. with Orissa Power Supply Co., etc.

## Vertical Merger

Merging of two companies involved in different goods and services. Reliance and FLAG Telecom group

## Market Extension Mergers

Merging of companies dealing in same products but different markets. Marui, India and Suzuki, Japan

## Conglomerate Merger

A merger between firms that are involved in totally unrelated business activities.

L&T and Voltas

• Up stream / Down stream Merger

A subsidiary company mergers with its parent company and vice versa. Bhadrachalam with ITC and ICICI Ltd. with ICICI Bank.

## How to solve a probelm in easy steps?

**Step 1:** Identify nature of Amalgamation (Nature is purchase as per syllabus)

Step 2: Calculate Purchase Consideration

It is the amount payable by transferee company (purchasing accompany) to transferor company (selling company) at the time of amalgamation. The payment can be in the mode of shares, debentures and cash.

LUMP SUM PAYMENT/PAYMENT METHOD	NET ASSETS METHOD	
Aggregate of consideration paid to share holder (equity and preference) in various forms	Aggregate of assets taken over at fair value Less:-	XXX
	Liabilities taken over at agreed amounts Net assets	XXX XXX

**Step 3:** Discharge of Purchase Consideration Discharged by transferee company (purchasing Co.)

**Step 4:** Accounting in the books of transferor company (Selling company) Closure of all accounts by transferring to realization account except shareholders account. (AS-14 is not applicable)

**Step 5:** Computation of Profit / loss in case of amalgamation for transferee company (Purchasing co)

Case 1	Consideration paid is more than net assets of selling company	It is loss for the purchasing company and the same should be treated as goodwill in the books of purchasing company
Case 2	Consideration paid is less than net assets of selling company	It is Profit for the purchasing company and the same should be treated as capital reserve in the books of purchasing company

**Step 6:** Accounting in the books of transferee (purchasing company) Merger of all assets and liabilities taken over at fair value.



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## IN THE BOOKS OF TRANSFEROR COMPANY (SELLING COMPANY)

#### 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	XXX	
	To Assets A/c		XXX
2	Transfer all liabilities taken over purchasing		
	company(Except equity, preference and		
	reserves)		
	Liabilities A/c Dr	XXX	
	To Realisation A/c		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	XXX	
	To Assets A/C(book value)		XXXX
	To Realisation A/c(Profits)		XXX
2	Sale with assuming loss		
	Bank A/c Dr	XXX	
	Realisation A/c(loss) Dr	XXX	
	To Assets A/c(Book Value)		XXX

#### SETTLEMENT OF LIABILITIES NOT TAKEN OVER BY PURCHASING COMPANY

SL.NO	PARTICULAR	DEBIT	CREDIT
	Settlement with assuming at discount) Liabilities A/C Dr To Bank A/C(book value) To Realisation A/c(Profits)	xxx	xxx 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	XXX	
	To Bank A/c		XXX
2	Incurred by transferee(purchasing Co.)		
	company	NIL	NIL
	NO ENRTY		
3	Incurred by transferor(Selling Co.) company		
	Reimbursed by transferee company		
	Transferee company A/c Dr	XXX	
	To Bank A/c		XXX
	On Reimbursement		
	Bank A/c Dr	XXX	
	To Transferee company A/c		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	XXX	
	Reserves A/c. Dr	XXX	
	To Shareholders A/c		XXX
2	Transfer of balances in realization account		
	Realisation A/c (Profit) Dr	XXX	
	To shareholders A/c		XXX
	In Case of loss		
	Shareholders A/c Dr	XXX	
	To Realisation A/c (Loss)		XXX

### SETTLEMENT TO SHAREHOLDERS BY TRANSFER OF CONSIDERATION RECCEIVED

SL.NO	PARTICULAR	DEBIT	CREDIT
1	Shareholders A/c Dr	XXX	
	To shares of transferee company A/c	xxx	
	To Bank A/c		XXX

## IN THE BOOKS OF TRANSFEREE COMPANY (PURCHASING COMPANY)

#### Due entry for business purchase

SL.NO	PARTICULAR	DEBIT	CREDIT
1.	Business Purchase A/c Dr	XXXX	
	To Liquidator transferor company A/c		XXX

#### Incorporation of assets and liabilities taken over

SL.NO	PARTICULAR	DEBIT	CREDIT
1	Sale consideration more than net assets of selling company.		
	Assets A/c Dr	XXX	
	Goodwill A/c Dr(Bal.Fig)	XXXX	
	To Liabilities A/c		XXXX
	To Business Purchase A/c		XXX
2	Sale consideration less than net assets of selling company.		
	Assets A/c Dr	XXX	
	To Liabilities A/c		XXX
	To Business Purchase A/c		XXXX
	To Capital Reserve A/c (Bal.Fig)		XXX

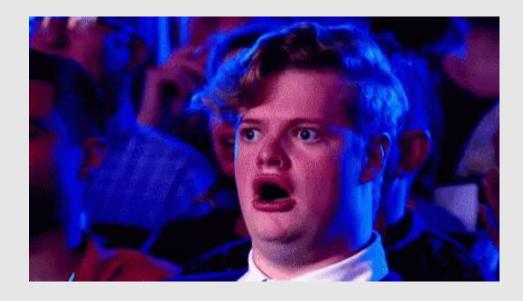
Note:

Sale consideration - net assets of selling company = positive amount = Goodwill (loss to purchasing Company)



## &

Sale consideration - net assets of selling company = Negative amount = Capital Reserve (gain to Purchasing company



#### **DISCHARGE OF PURCHASE CONSIDERATION**

SL.NO	PARTICULAR		DEBIT	CREDIT
1	Liquidator of transferor company A/c	Dr	XXX	-
	To Share capital A/c			XXX
	To Securities premium A/c			XXX
	To Bank A/c			XXX

#### OTHERS

SL.NO	PARTICULAR	DEBIT	CREDIT
1	Cancellation of inter company owings		
	Creditors A/c Dr 🤇		
	To Debtors		XXX
2	Elimination of unrealised profits on goods sold	1	
	by one company to the other and remaining		
	unsold on the date of amalgamation		
	Goodwill/Capital reserve A/c Dr	XXX	
	To Stock reserve/Stock A/c		XXX
3	Realisation expense		
	Incurred by purchasing company		
	Goodwill/Capital reserve A/c Dr	XXX	
	To Bank A/c		XXX
	Realisation incurred by selling company		
	NO ENTRY	NIL	NIL
	Realisation expense by selling and the same		
	was reimbursed by purchasing company		
	Goodwill/Capital reserve A/c Dr	XXX	
	To Bank A/c		XXX

Contra entry for statutory reserve appearing in selling company and the same to be maintained by purchasing company.

SL.NO	PARTICULAR		DEBIT	CREDIT
1	Amalgamation Adjustment A/c	Dr	XXX	
	To Statutory reserve A/c			XXX

