



- Krishnan R
SIES ASC, Sion (W)

Amalgamation of 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. Amalgamation in the nature of merger:

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 company 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. Amalgamation in nature of purchase:

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)**
- **Suzlon 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)



USD 130 Mn (2016)



USD 50 Mn (2015)



USD 400 Mn (2015)

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 merges with its parent company and vice versa.

Bhadrachalam with ITC and ICICI Ltd. with ICICI Bank.

How to solve a problem 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 company) 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 XXX Less:- Liabilities taken over at agreed amounts XXX Net assets 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.



जर्नल प्रविष्टि



SALE OF ASSETS NOT TAKEN OVER BY PURCHASING COMPANY

SL.NO	PARTICULAR	DEBIT	CREDIT
1	Sale with assuming profit Bank A/C Dr To Assets A/C(book value) To Realisation A/c(Profits)	XXX	XXX XXX
2	Sale with assuming loss Bank A/c Dr Realisation A/c(loss) Dr To Assets A/c(Book Value)	XXX XXX	XXX

SETTLEMENT OF LIABILITIES NOT TAKEN OVER BY PURCHASING COMPANY

SL.NO	PARTICULAR	DEBIT	CREDIT
1	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	Incurring by transferor(Selling Co.) company Realisation A/c To Bank A/c	XXX	XXX
2	Incurring by transferee(purchasing Co.) company NO ENRTY	NIL	NIL
3	Incurring by transferor(Selling Co.) company Reimbursed by transferee company Transferee company A/c Dr To Bank A/c On Reimbursement Bank A/c Dr To Transferee company A/c	XXX XXX	XXX 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 Reserves A/c Dr To Shareholders A/c	XXX XXX	XXX
2	Transfer of balances in realization account Realisation A/c (Profit) Dr To shareholders A/c In Case of loss Shareholders A/c Dr To Realisation A/c (Loss)	XXX XXX	XXX XXX

SETTLEMENT TO SHAREHOLDERS BY TRANSFER OF CONSIDERATION

RECEIVED

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



THOKO TAALI !!!

---THE END