AMALGAMATION OF COMPANIES

What is Amalgamation?

Amalgamation is defined as the combination of one or more companies into a new entity. It includes:

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

Thereby, amalgamation includes absorption.

However, Amalgamation as its name suggests is nothing but two companies becoming one. On the other hand, Absorption is the process in which the one powerful company takes control over the weaker company.

Generally, Amalgamation is done between two or more companies engaged in the same line of activity or has some synergy in their operations. Again the companies may also combine for diversification of activities or for expansion of services

Transferor Company means the company which is amalgamated into another company; while Transferee Company means the company into which the transferor company is amalgamated.

Existing companies A and B are wound up and a new company C is formed to take over the businesses of A and B	Amalgamation
Existing company A takes over the business of another existing company B which is wound up	Absorption
A New Company X is formed to take over the business of an existing company Y which is wound up.	External reconstruction

Amalgamation is different from Merger because neither of the two companies under reference exists as a legal entity. Through the process of amalgamation a completely new entity is formed to have combined assets and liabilities of both the companies.

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 transferee 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 atleast 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.

If the purchase consideration exceeds the net assets value then the excess amount is recorded as the goodwill, while if it is less than the net assets value it is recorded as the capital reserves.

Why Amalgamate?

a) To acquire cash resources
b) Eliminate competition
c) Economies of large scale operations
d) Increase shareholders value
e) To reduce the degree of risk by diversification
f) Managerial effectiveness
g) To achieve growth and gain financially

Procedure for Amalgamation

1. The terms of amalgamation are finalized by the board of directors of the amalgamating companies.
2. A scheme of amalgamation is prepared and submitted for approval to the respective High Court.
3. Approval of the shareholders' of the constituent companies is obtained followed by approval of SEBI.
4. A new company is formed and shares are issued to the shareholders' of the transferor company.
5. The transferor company is then liquidated and all the assets and liabilities are taken over by the transferee company.

Accounting of Amalgamation

A. **Pooling of Interests Method:**

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

B. **Purchase Method:**

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In this method, the transferee company accounts for the amalgamation either by incorporating the assets and liabilities at their existing carrying amounts or by allocating the consideration to individual

A. assets and liabilities of the transferor company on the basis of their fair values at the date of amalgamation.

Computation of purchase consideration: For computing purchase consideration, generally two methods are used:

1. Purchase Consideration using net asset method: Total of assets taken over and this should be at fair values minus liabilities that are taken over at the agreed amounts.

Particulars	**Rs.**
Agreed value of assets taken over	XXX
Less: Agreed value of liabilities taken over	XXX
Purchase Consideration	XXX

1. Agreed value means the amount at which the transferor company has agreed to sell and the transferee company has agreed to take over a particular asset or liability.
2. **Purchase consideration using payments method:** Total of consideration paid to both equity and preference shareholders in various forms.

   Example: A. Ltd takes over B. Ltd and for that it agreed to pay Rs 5,00,000 in cash. 4,00,000 equity shares of Rs 10 each fully paid up at an agreed value of Rs 15 per share. The Purchase consideration will be calculated as follows:

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Particulars	Rs.
Cash	5,00,000
4,00,000 equity shares of Rs10 fully paid up at Rs15 per share	60,00,000
Purchase Consideration	65,00,000

Advantages of Amalgamation

- Competition between the companies gets eliminated
- R&D facilities are increased
- Operating cost can be reduced
- Stability in the prices of the goods is maintained

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