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Q No-1 :→ Define Amalgamation. Discuss its objectives?

Ans.

Amalgamation means the merging of two or more than two companies for eliminating competition among them or for growing in size to achieve the economies of scale. Amalgamation is a board term which includes mergers (uniting of two existing companies) and acquistion (one company buying out another company)

There are two types of amalgamation :—

(A.) **Amalgamation in the nature of merger :-**

An Amalgamation is considered as 'Amalgamation in the nature of merger' if all the following conditions are satisfied :—

(i) All the assets and liabilities of the transferor company become the assests and liabilities of the transferee company after amalgamation.

(ii) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of amalgamation.

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(iii) The consideration to the shareholders of the transferor company (who agree to become equity shareholders of the transferee company) is discharged by the transferee company wholly by issue of equity shares in the transferee company except that cash many be paid in respect of any franctional 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 books 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.

(B.) Amalgamation in the Nature of Purchase:—

An amalgamation is in the 'Nature of Purchase' if any one or more of the five conditions specified for merger is not satisfied. In such kind of amalgamation shareholders of the company which is acquired normally do not continue to have a proportionate share in the equity of the combined company. The transferee company may also not intend to continue the business of transfer company.

Accounting for amalgamation is issued by the institute of chartered accountants of India states the procedure for accounting for amalgamation.

Objectives:—

The following are the main objectives of amalgamation of companies:—

(a) To avoid competition → The main purpose of amalgamation of companies is to avoid competition among themselves. This will give the company an edge over its competitors.

(b.) To reduce cost:— The amalgamated company can derive the operating cost advantage through lowering the cost of production. This is possible becouse of economies of large scale.

(c.) To gain financially:— To amalgamated company can derive financial gain which may be in the from of tax advantage, higher credit worthiness and lower rate of borrowing.

(d.) To achieve growth:— The amalgamated company can pool its resources to facilitate internal growth and to prevent the advent of new competitor.

(e.) To diversify the activities:— 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.

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