FINANCIAL ACCOUNTING IV
AMALGAMATION

Amalgamation-Meaning

- Amalgamation means to merge or to combine two or more business units carrying onsame type of business and form a new business unit.
- Amalgamation of partnership firms means merger of two or more partnership firmswith one another and form a new partnership firm.
- Example: A & B firm + X & Y firm= A,B,X & Y firm

Forms of Amalgamation

1. Merging of two or more existing sole proprietors into each another and form a newpartnership firm.
2. Merging one existing partnership firm with one existing sole proprietor and form anew partnership firm.
3. Absorbing one existing partnership firm by another existing partnership firm.
4. Merging two or more existing partnership firms with one another and form a newpartnership firm.

Objectives of Amalgamation Of Company

i. For a better control over the market.
ii. To properly utilise the service of professional experts.
iii. To increase the profit volume of business.
iv. It aims to eliminate the cut-throat competition among them.
v. To capable of increasing the market share and its area of operation.
vi. To increase the availability of funds for further investment in future.
vii. To enjoy the economy for large scale production.

Features of Amalgamation Of Companies

i. The new company form in Amalgamation is expected to be greater than to thetransferor company.
ii. Two or more companies are required to Amalgamate on the process of Amalgamation.
iii. A new company must be formed to take over the business of the transferorcompany.
iv. All the existing companies are to be liquidated before Amalgamation.
v. In Amalgamation one company is acquired by another, and shareholders of the transferor company do not have a proportionate share in the equity of the combined company.
vi. If the purchase consideration of Amalgamation companies exceeds in net asset value (NAV), the excess amount is recorded as goodwill of the new company. If not recorded, it is recorded as capital reserves.

ACCOUNTING FOR AMALGAMATION

In India, Accounting Standards are prepared by The Institute of Chartered Accountants of India (ICAI). These accounting standards set the rules and regulations to prepare financial statement in India. Accounting Standard 14 deals with accounting for amalgamation. According to this accounting standard, amalgamation can be effected in two ways, i.e.,

(a) Amalgamation in the nature of merger and

(b) Amalgamation in the nature of purchase

As far as syllabus of S.Y.B.Com. is concerned, we have to deal with amalgamationin the nature of purchase.

AMALGAMATION IN THE NATURE OF PURCHASE

Accounting Procedure (Steps to Solve the Problem):

(A) Computation of Purchase Consideration

(B) Closing the Books of Old Firms

(C) Opening the Books of New Firms

(A) Computation of Purchase Consideration

When two or more business firms close their business and a new business firm is started, the new firm has to pay some compensation to the owners of old firms (vendor firms). Therefore, the amount which the new firm agrees to pay the old firms is called as 'Purchase Consideration'.

There are two methods to compute purchase consideration:

- *Lumpsum Method:* Under this method, the new firms pays a lumpsum amount to the old (vendor) firms. The amount is fixed. There is no need to do any calculation to arrive at the amount of purchase consideration, it will be directly given.
- *Net Asset Method:* Under this method, the amount of purchase consideration is equal to the net assets transferred from old firms to the new firms. **Purchase consideration is calculated by deducting the amount of liabilities taken over by the new firm from the assets taken over.** It is calculated as follows:

Particulars	₹	₹
Assets taken over at Revised Values:		
Goodwill	XX	
Land and Buildings	XX	
Furniture	XX	
Plant and Machinery	XX	
Stock	XX	
Debtors	XX	
Cash	XX	
Bank	XX	XXX
Less: Liabilities taken over at agreed values:		
Creditors	XX	
Bank Overdraft	XX	
Bills Payable	XX	
Any other liability taken over	XX	XX
Net Asset/Purchase Consideration		XXX

(B) Closing the Books of the Old Firms

Ledger Accounts to be prepared:

1. Realization Account – To realize the assets and liabilities of vendor firms.
2. Partner's Capital and/or Current Accounts – To calculate the final balance ofthe partner to be transferred to the books of new firm.
3. New firm Account – To settle the Purchase Consideration.

Proforma Journal Entries

Sr. No.	Accounting Transactions	Journal Entries	
1	Open Necessary Ledger Accounts and transfer the opening balances to the respective ledger accounts	No Entry	
2	Accumulated Profits and Reserves to Partner's Capital/Current Account	Profit and Loss A/c Reserves A/c To Partner's Capital/Current A/c	Dr. Dr.
3	Transfer Accumulated Losses to Partner's Capital/Current Account	Partner's Capital/Current A/c To Profit and Loss A/c	Dr.
4	Transfer all the assets to Realization A/c at their books values (Note: Cash and Bank balance to be transferred only to the extent taken over by the new firm)	Realization A/c To Sundry Assets A/c	Dr.
5	Transfer all the liabilities to Realization Account at their book values	Sundry Liabilities A/c To Realization A/c	Dr.
6	Record Purchase Consideration	New Firm A/c To Realization A/c	Dr.
7	Realization of assets not taken over by the new firm	Bank A/c To Realization A/c	Dr.
8	Payment of liabilities not taken over by the new firm	Realization A/c To Bank A/c	Dr.
9	Assets taken over by partner	Partner's Capital A/c To Realization A/c	Dr.
10	Liabilities taken over by partner	Realization A/c To Partner's Capital A/c	Dr.
11	Record unrecorded assets	Assets A/c To Partner's Capital A/c	Dr.
12	Realization of unrecorded assets	Bank A/c To Assets A/c	Dr.

13	Record unrecorded liabilities	Partner's Capital A/c Dr. To Liabilities A/c
14	Payment of unrecorded liabilities	Liabilities A/c Dr. To Bank A/c
15	Payment of realization expenses	Realization A/c Dr. To Bank A/c
Close the Realization Account and find out Profit/Loss on Realization and transfer thesame to Partner's Capital/Current Account		
16	Profit on Realization	Realization A/c Dr. To Partner's Capital/Current A/c
17	Loss on Realization	Partner's Capital/Current A/c Dr. To Realization A/c
Close Partner's Current Account and transfer the balance to Partner's Capital A/c,if applicable		
18	Transfer the current account balance to capital accounts	Partner's Current A/c Dr. To Partner's Capital A/c
Close partner's capital account and transfer the final balance of capital tonew firm's account		
19	Final Adjustment	Partner's Capital A/c Dr. To New Firm A/c
Finally close the new firm account, it will tally		

(C) Opening Entries in the Books of New Firm

Statement to be prepared – Balance Sheet to record the assets and liabilities taken over from vendor firms and purchased by the new firm.

Proforma Opening Journal Entries

Sr. No.	Accounting Transactions	Journal Entries
1	Record the purchase of business	Sundry Assets A/c Dr. To Sundry Liabilities A/c To Partner's Capital A/c
2	Write off Goodwill if given	All Partner's Capital A/c Dr. To Goodwill A/c
Adjust Capital Account as per new Profit Sharing Ratio and transfer the difference3		
	(a) Adjustment of Surplus	Partner's Capital A/c Dr. To Cash A/c To Partner's Current A/c To Partner's Loan A/c
	(b) Adjustment of Deficit	Cash A/c Dr. Partner's Current A/c Dr. Partner's Loan A/c Dr. To Partner's Capital A/c
Prepare Opening Balance Sheet of the New Firm		

Illustrations

1. The Balance Sheet of M/s White and M/s. Red as on 31st December, 2011 wereas follows:

Liabilities	White ₹	Red ₹	Assets	White ₹	Red ₹
Capital:			Buildings	40,000	45,000
W	30,000	–	Plant	25,000	23,000
H	40,000	–	Furniture	15,000	20,000
R	–	40,000	Debtors	20,000	40,000
D	–	50,000	Stock	23,000	30,000
Creditors	50,000	30,000	Cash & Bank Balance	4,000	12,000
Bank Loan	–	35,000			
Outstanding Expenses	7,000	15,000			
	1,27,000	**1,70,000**		**1,27,000**	**1,70,000**

The two firms decided to amalgamate and form into M/s Pink with effect from 31st December, 2011. Partners would share profits and losses equally between themselves as they were doing prior to amalgamation and they agreed to following revaluation of assets and liabilities:

Particulars	White ₹	Red ₹
Buildings	45,000	50,000
Plant	20,000	20,000
Furniture	10,000	12,000
Debtors	15,000	30,000
Stock	22,000	30,000
Creditors	45,000	30,000
Bank Loans	–	32,000
Outstanding Expenses	4,000	11,000

In addition to the above, it was decided:

(a) Goodwill of White and Red were valued at ` 40,000 and ` 50,000 respectively and it should be written off in the New Firm.

(b) That the reconstructed capitals of the partners would be ` 40,000 each. The difference, if any, should be transferred to Current Account.

You are required to show:

(i) the accounts in the books of M/s White

(ii) the Opening Balance Sheet of the New Firm.

Solution:

Computation of Purchase Consideration

Particulars	White & Co.	Red & Co.
Assets taken over at received values:	45,000	50,000
Building	20,000	20,000
Plant	10,000	12,000
Furniture	15,000	30,000
Debtors	22,000	30,000
Stock	4,000	12,000
Cash & bank balance	40,000	50,000
Goodwill	1,56,000	2,04,000
Less: Liabilities taken over:		
Creditors	45,000	30,000
Bank loans	–	32,000
Outstanding expenses	4,000	11,000
Net Assets/Purchase Consideration	**1,07,000**	**1,31,000**

Ledger Accounts in the Books of White & Co.

Dr. **Realization Account** **Cr.**

Particulars	`	`	Particulars	`	`
To Sundry Assets A/c:			By Sundry Liabilities:		
Building	40,000		Creditors	50,000	
Plant	25,000		Bank loans	7,000	57,000
Furniture	15,000		By Pink & Co.		1,07,000
Debtors	20,000				
Stock	23,000	1,27,000			

Cash & Bank Balance		4,000			
To Partner's Capital A/cs (profit on realization)					
W	18,500				
H	18,500	37,000			
		1,64,000			**1,64,000**

Dr. **Partner's Capital Account** **Cr.**

Particulars	**W**	**H**	**Particulars**	**W**	**H**
To Pink & Co.	48,500	58,500	By Balance b/d	30,000	40,000
			By Realization A/c	18,500	18,500
	48,500	**58,500**		**48,500**	**58,500**

Dr. **Pink & Co. Account** **Cr.**

Particulars		`	**Particulars**		`
By Realization A/c		1,07,00	By W's Capital A/c		48,500
			By H's Capital A/c		58,500
		1,07,000			**1,07,000**

Pink & Co.

Opening Balance Sheet as on 31st December, 2011

Liabilities	`	`	**Assets**	`	`
Capital A/cs:			Building		95,000
W	40,000		Plant		40,000
H	40,000		Furniture		22,000
R	40,000		Debtors		45,000
D	40,000	1,60,000	Stock		52,000
D's Current A/c		8,000	Cash & bank balance		16,000
Creditors		75,000	Current A/cs:		
Bank Loan		32,000	W	14,000	
Outstanding Expenses		15,000	H	4,000	
			R	2,000	20,000
		2,90,000			**2,90,000**

Working Note: 1

Adjustment of Capital A/c of Partners

	Particulars	W	H	R	D
(a)	Capitals transferred from old firms	48,500	58,500	60,500	70,500
(b)	Goodwill written off in equal proportion	22,500	22,500	22,500	22,500
(c)	Adjusted Capital	26,000	36,000	38,000	48,000
(d)	Required capital in new firm	40,000	40,000	40,000	40,000
(e)	Surplus/deficit (to be transferred to Current A/c)	(14,000)	(4,000)	(2,000)	8,000