

Rizvi College of Arts, Science & Commerce

Subject: Financial Accounting

Topic: Amalgamation of Company

Class: T.Y.B.A.F

Semester V

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Road Map

1. Basic Concepts with Examples

2. Objectives of Amalgamation

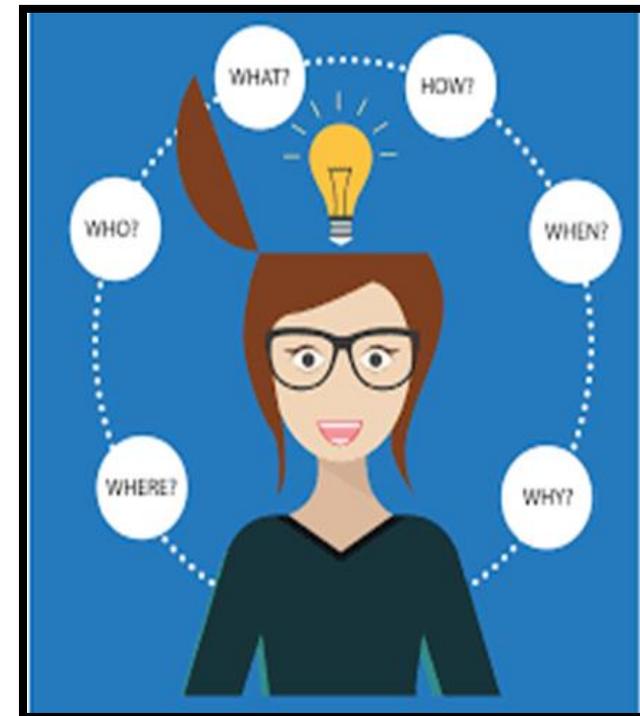
3. Advantages of Amalgamation

4. Disadvantages of Amalgamation

5. Types of Amalgamation

6. Purchase Consideration (PC)

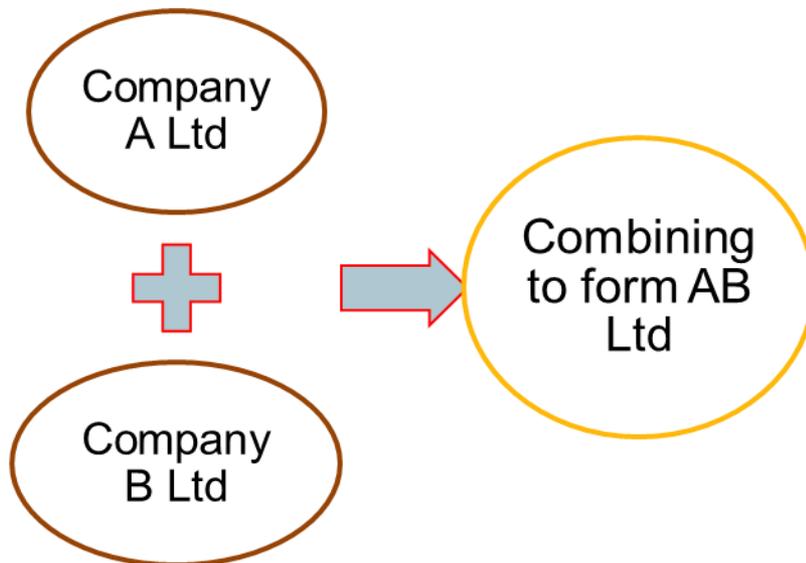
7. Types to Calculate PC



Basic Concepts

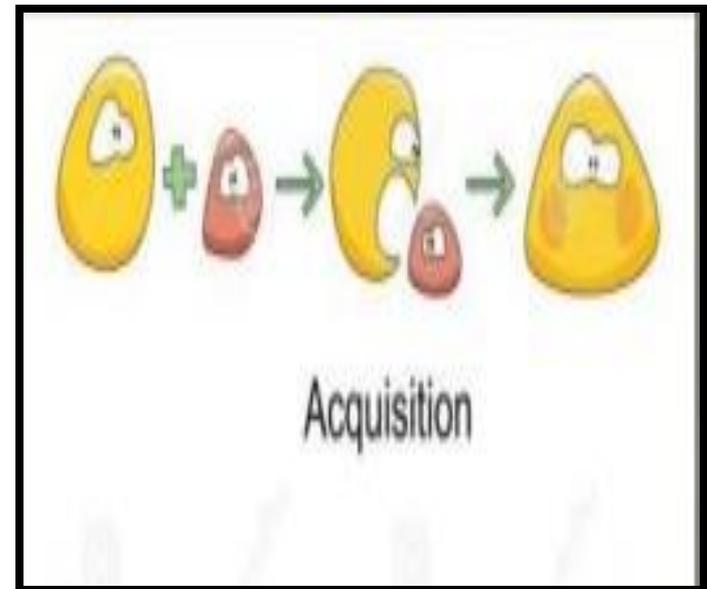
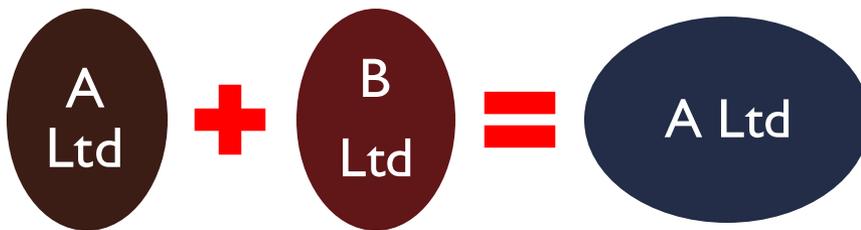
Amalgamation

- Amalgamation means combining, coming together or joining of two business concern to form a single and bigger business concern.
- Example :



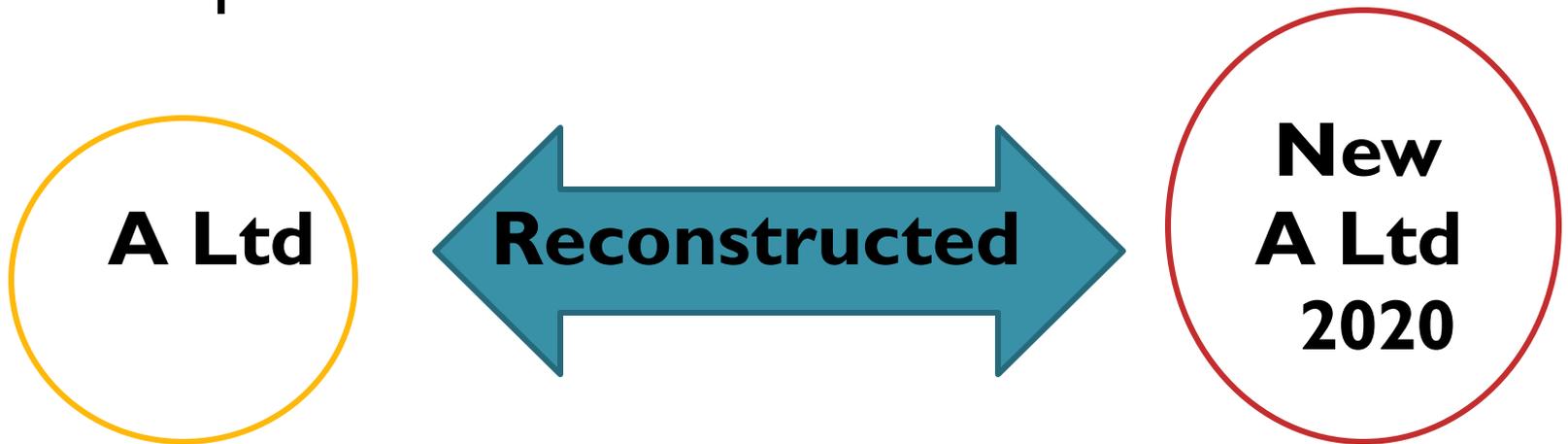
Absorption

- When an existing company is purchased by another existing company.
- The company which is being liquidated is known as Vendor Company and the another company is known as Purchasing Company.
- It is also known as Acquisition of a Company by another Company.
- Example:



External Reconstruction

- When an existing loss making company is liquidated and a new company is formed to purchase it.
- Example:



Some More Examples:

- Multiplex operator PVR Ltd has approved an amalgamation scheme between Bijli Holdings Pvt. Ltd and itself to simplify PVR's shareholding structure.
- Satyam computers and Tech Mahindra Ltd.
- Tata Sons and the AIA group of Hongkong amalgamated to form Tata AIG Life Insurance.
- Maruti Motors in India and Suzuki in Japan amalgamated to form Maruti Suzuki (India) Limited.

Objectives of Amalgamation

1.To achieve large operation

2.To save cost of Production

3.To increase market share of production

4.To reduce unnecessary cost of advertising

5.To accumulate reserves and funds

6.To avoid cut throat competition

7.Tax savings

8.To become monopolistic



Advantages of Amalgamation

1. To reduce the Operating cost

2. To enjoy monopoly

3. To enjoy better financial status

4. To manage business effectively

5. R&D facilities are increased

6. To make high profits

7. Stability in the prices of goods is maintained



Disadvantages of Amalgamation

1. Amalgamation may lead to elimination of healthy competition

2. Reduction of employees may take place

3. There could be additional debt to pay

4. Business combination may lead to monopoly in the market which is not always positive

5. The goodwill and identity of old firm is almost lost.



Types of Amalgamation

**Amalgamation
in Nature of
Merger**

**Amalgamation
in Nature of
Purchase**

Purchase Consideration

- Purchase Consideration is the amount which is paid by the purchasing company for the purchase of the business of vendor company.
- It can be in the form of shares, securities or cash.



Types to Calculate Purchase Consideration

Purchase Consideration

NET PAYMENT
METHOD

Something given to shareholders of vendor company by purchasing company

NET ASSET
METHOD

Asset & Liabilities taken over at agreed value of vendor company by purchasing company

Thank You

