Amalgamation of Companies (as per AS-14)

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 of one by the other

Thereby, amalgamation includes absorption.

However, one should remember that 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

Types of Amalgamation

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 transfer 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 transferee company.

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.

why companies amalgamate

a. To acquire cash resources
b. Eliminate competition
c. Tax savings
d. Economies of large scale operations

e. Increase shareholders value
f. To reduce the degree of risk by diversification
g. Managerial effectiveness
h. To achieve growth and gain financiall

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.