

Thakur Educational Trust's (Regd.)

THAKUR COLLEGE OF SCIENCE & COMMERCE

Autonomous College, Permanently Affiliated to University of Mumbai
(NAAC Accredited with Grade 'A' [3rd Cycle] & ISO 9001:2015 Certified)
Best College Award by University of Mumbai for Year 2018-2019



AMALGAMATION OF FIRMS



AGENDA

- Understand the concept and procedure for Amalgamation of Firms
- Distribute the shares received as purchase consideration among the partners
- To be in a position to write various Journal Entries



MEANING

- Amalgamation of firm means amalgamation , merger or combination of two or more existing partnership firms and formation of a new partnership firm



OBJECTIVES

- ❑ To avoid competition.
- ❑ To have a monopoly in particular trade.
- ❑ To avoid duplication of fixed expenses and to reduce management expenses.
- ❑ To unite persons of varying skills for the efficient conduct of the business.



Continue...

- To have large scale business and enjoy the benefits of large scale operations.
- To get more capital for the expansion of the business.

DIFFERENT FORMS OF AMALGAMATION OF FIRM

- Amalgamation of 2 or more sole traders:
Mr. A and Mr. B
- Amalgamation of sole trader and partnership firm:
Mr. X proprietor and M/S YZ a partnership Firm.

Continue...

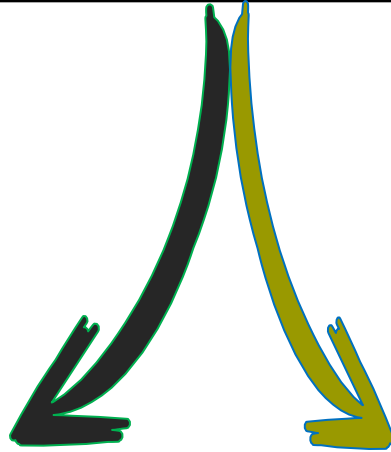
- Amalgamation of two or more partnership firm:

M/s PQ and M/s RS

- Absorption:

In this all the merging units will not lose their identity. One of them will continue to exist.

METHODS OF ACCOUNTING

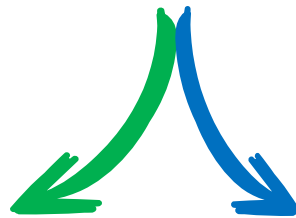


**PURCHASE METHOD /
REALIZATION METHOD**

**AMALGAMATION IN THE
NATURE OF MERGER
(NOT IN SYLLABUS)**

ACCOUNTING PROCEDURES

When two or more partnership firms are amalgamated, the following accounting procedures are required:



**Closing the Books
of the Old Firm**

**Opening the books
of the new firm**





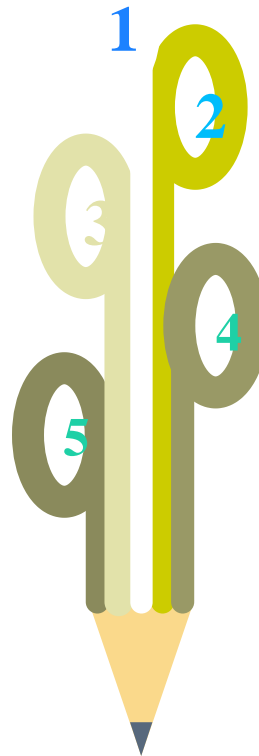
CLOSING THE BOOKS OF THE OLD FIRM

CLOSING THE BOOKS OF OLD FIRM

Revaluation Account must be prepared by each firm relating to its Assets and Liabilities.

Entries for raising Goodwill should be passed.

New Firm's Account must be debited with the difference between the value of assets and liabilities



Transfer the balance of Revaluation Account to Partners' Capital Account in the Profit-sharing Ratio.

Transfer of Assets and Liabilities not taken over by New firm in Partners' Capital Account.





OPENING THE BOOKS OF THE NEW FIRM

OPENING THE BOOKS OF THE NEW FIRM





SCHEME OF ENTRIES

ENTRIES IN THE BOOKS OF OLD FIRM

□ **Transfer of Assets**

Realization A/c Dr.
 To Sundry Assets A/c

□ **Transfer of Fictitious Assets**

Partner's Capital Account Dr
 To Fictitious Assets A/c

Continue...

□ **Transfer of Liabilities**

Sundry Liabilities A/c Dr

To Realization A/c

□ **Transfer accumulated profits/Reserves**

Profit and Loss(Cr.) Dr

General reserve A/c Dr

To Partner's Capital A/c

Continue...

- **Purchase Consideration Due**

Purchasing firm a/c Dr

To Realization a/c

- **Take over by a partner of an Asset**

Partner's Capital A/c Dr

To Realization A/c

Continue...

- ❑ **Sale/realization of asset not taken over by partner**

Cash or Bank A/c Dr.
 To Realization

- ❑ **Recording unrecorded Assets**

Assets A/c Dr
 To Partners Capital

Continue...

- **Payment of Liabilities not taken over**

Realization A/c Dr

To Bank

- **Recording Unrecorded Liability**

Partners Capital A/c Dr

To Unrecorded Liability

Continue...

- **Payment of unrecorded Liability**

Liability A/c Dr

To Bank

- **Liability T/O by partner**

Realization A/c Dr

To Partners Capital



Continue...

□ **Payment of Realization Expense**

Realization A/c Dr

To Partners capital

Continue...

- ❑ **Profit on Realization**

Realization A/c Dr

To Partners Capital

- ❑ **Loss on Realization**

Partners Capital A/c Dr

To Realization

Continue...

-
- **Transfer credit balance in current A/c to Partners capital**

Partner's current A/c Dr

To Partners Capital

- **Transfer Debit balance in Current A/c to Partners capital**

Partners Capital A/c Dr

To Partners Current A/c

Continue...

- **Final payment**

Partner's Capital A/c Dr

To Partners Capital in new firm

JOURNAL ENTRIE IN THE BOOK OF NEW FIRM

□ Record purchase of Business

Assets (T/O) A/c	Dr	} Agreed value }
To Liabilities (T/O)		
To Partners Capital		

(Balance T/O)

□ Write off Goodwill (if it is agreed upon)

Partners Capital A/c	Dr.
To Goodwill	

Continue...

- **Dissolution expenses paid and borne by
New Firm**

Goodwill A/c Dr

 To Cash

Continue...

□ Capital Adjustments

- **Surplus**

Partners Capital/ Cash A/c Dr

 To Partners Current/ Loan A/c

- **Deficit**

Cash/ Partners Current/ Partners Loan Dr

 To Partners Capital



PURCHASE CONSIDERATION

- In case of amalgamation, purchase consideration is the agreed amount which transferee company (Purchasing company) pays to the transferor company (Vendor company) in exchange of the ownership of the transferor company. It may be in form of cash, shares or any other assets as agreed between both the companies.

METHODS OF PURCHASE CONSIDERATION

□ **Net Asset Method:**

Purchase consideration is equal to the total net assets of transferor company.

Total agreed value of asset – Total agreed value of liabilities

METHODS OF PURCHASE CONSIDERATION

□ **Lump sum method –**

Fixed amount paid by the transferee company to the transferor company. This method does not require any calculation as the amount is decided by mutual consent of both the companies.



STEPS FOR SOLVING THE PROBLEM

- Transfer of opening balances of Partners
Capital / Cash / Bank

- Transfer all Reserves and Surplus to Partners
Capital

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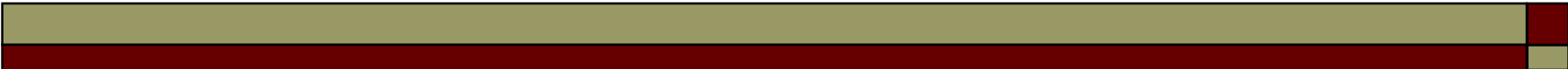
- Transfer all Assets to Realization Account (Dr.) side at **Book Value**

- Transfer all Liabilities to Realization Account (Cr.) side at **Book Value.**



Continue...

- Recording of Purchase Consideration.
- Go through all the adjustments.
- Closing of Books of old firm.



THANK YOU