AMALGAMATION OF PARTNERSHIPS

Amalgamation is the combination of two or more firms into a new firm formed for the purpose of carrying on business.

Reasons: the primary reason for amalgamation is to obtain SYNERGY. Other reasons include to:

i. Gain larger market share
ii. Improve profitability
iii. Obtain benefits of economies of scale

For amalgamation to take place the combining firms are dissolved and the partners in the dissolved firms now become partners in the newly formed firm. The assets of the old firms (including goodwill), which are to be taken over by the new firm may be revalued to reflect their economic worth as at the date of the amalgamation.

Steps:

i. Close the books of the amalgamating firms;
ii. Calculate/compute the Purchase Consideration;
iii. Open the books of the new firm (opening entries and SOFP).

Purchase consideration
This is the value given in exchange by the firm (purchaser) that is acquiring another firm (vendor). Hence it is the price paid to acquire a firm. The New firm is considered in this case as the Purchaser, while the old firms are the vendors. However, no cash is actually paid/received during amalgamation, as resources are simply being transferred from the old firms to the new firm. Hence purchase consideration is simply the **Net Assets** taken over by the new firm at agreed values.

Closing the books:

i. Close current accounts and reserves to Capital Account;
ii. Assets: close all assets to realisation account, except cash and bank;
iii. Assets not taken over by new firm will either be sold or taken over by partners;
iv. Liabilities: close all liabilities to be taken over to the realisation account
v. Liabilities not taken over by new firm may be paid off or taken over by partners.
vi. Realisation/Dissolution Costs: if borne by the old firms, it should be debited to the realisation account; otherwise ignore.

If balance of cash/bank is to be taken over by the new firm, transfer the balance to Realisation account; otherwise it should be paid to partners as agreed.

vii. Ascertain the purchase consideration; debit the amount to the New firm account and Credit Realisation account.

viii. Profit or Loss on realisation should be ascertained and written off to the capital account in the profit sharing ratio.

ix. The balances in the capital accounts are transferred to the new firm account.

ABSORPTION OF ONE PARTNERSHIP BY ANOTHER

Absorption refers to the acquisition of one firm by another firm. Absorption/Take-over is another type of business combination aimed at achieving growth. The purchasing partnership becomes bigger as a result of the take-over, while the absorbed partnership is dissolved (ceases to exist).

Forms of Absorption

a. Partners of the absorbed firms become partners in the absorbing (purchasing) firm. This is in principle similar to amalgamation;
b. Partners of the absorbed firm are paid an agreed price (purchase consideration) for their firm, and they do not become partners in the purchasing firm.

Amalgamation Vs Absorption

Absorption and amalgamation are similar from the view point that they are both methods of combining two or more partnerships (firms) into one. Their differences are highlighted below:

	Amalgamation	Absorption
1	All the amalgamating firms are dissolved, and their operations taken over by a newly formed partnership	Only the firms taken over are dissolved , and their operations are taken over by the purchasing/absorbing partnership
2	The new firm that is taking over operations of the dissolved firms has a new name and identity.	The purchasing/absorbing firm, which is taking over the operations of the dissolved partnership, may continue to maintain its name and identity.

Purchase Consideration

Just as in Amalgamation, the purchase consideration is the value of the **Net Assets** taken over by the absorbing partnership. However, if the absorbing firm pays an agreed sum to the owners of the absorbed firm, the sum so paid is the purchase consideration.

The implication of this is that it is possible for the **agreed sum** to be different from the **Net Assets** taken over. Where the agreed sum (purchase consideration) is higher than the Net Assets taken over, the excess represents **goodwill**; and where the agreed sum (purchase consideration) is lower than the Net Assets taken over, the difference represents **reserves.**

Closing the books of the absorbed firm (Steps involved):

i. Close current accounts and reserves to Capital Account;

ii. Assets: close all assets to realisation account, except cash and bank;

iii. Assets not taken over by purchasing firm will either be sold or taken over by partners;

iv. Liabilities: close all liabilities to be taken over to the realisation account
v. Liabilities not taken over by new firm may be paid off or taken over by partners.
vi. Realisation/Dissolution Costs: if borne by the firm being absorbed, it should be debited to the realisation account; otherwise ignore.
vii. If balance of cash/bank is to be taken over by the absorbing firm, transfer the balance to Realisation account; otherwise it should be paid to partners as agreed. If the partners of the absorbed firm are paid off, the bank/cash account should be left alone and closed to the capital accounts at the end of the process.
viii. Ascertain the purchase consideration; debit the amount to the Absorbing firm account and Credit Realisation account.
ix. Profit or Loss on realisation should be ascertained and written off to the capital account in the profit sharing ratio.
x. The balances in the capital accounts are transferred to the Absorbing firm account; **OR**
xi. Where the partners of the absorbed firm are paid an agreed price, the purchase consideration received should be debited to bank/cash account and credited to the absorbing firm account.