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The Accounting Entries of Mergers and Acquisitions in Europe

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Abstract

The purpose of the present paper is to show the complexity and help the scientists of accounting to know and understand the accounting entries of mergers and acquisitions in accordance with the IASB and IFRS instructions.

So this paper attempts to describe how we can present the mergers and acquisitions after they have been completed in the accounting books of the companies that have been involved.

We give plenty of examples from different categories of mergers and acquisitions to make more understandable the accounting entries.

According to the IFRS 3 there are three main accounting methods of mergers and acquisitions. These are: a) Pooling of Interest Method (Amalgamation in nature of merger), b) Purchase Method (Amalgamation in nature of purchase), and c) The cost Method. There are many different types of mergers and acquisitions with many accounting entries based to the above three accounting methods.

Therefore, the content and the structure of this paper reflect the effort to understand the accounting treatment of mergers and acquisitions to record them in the accounting books after all the payments have been finished.

Keywords: Accounting, Mergers, Acquisitions

JEL Classification: M41, G34

1. Introduction

In recent years, due to the global financial crisis, we have observed that businesses, in order to remain viable, or even increase their value, resort to long-term planning strategies. Such strategies are Mergers and Acquisitions. In the domestic market, we often find companies that made mergers and acquisitions in order to increase their competitive advantage and gain a dominant position in the market.

The significant value of worldwide Mergers and Acquisitions during the past 20 years has attracted the interest of many academics and consultants. Researchers of this stream have used accounting based measures to evaluate the success of an acquisition. With respect to the measurement of the performance of Mergers &Acquisitions, finance and economic scholars have often relied on objective criteria such as accounting returns and stock-market-based measures while strategic management and organizational behaviour scholars have often employed managers' personal assessments regarding the materialization of the objectives set before the Merger and Acquisition (Papadakis M., V., and Thanos C., I., 2010).

Mergers and acquisitions create, as it is known, economies of scale. The economies of scale result from the increased size of the new business. Cost reduction is usually an important factor for the mergers and acquisitions. Scale economies can be achieved, for example, in the field of inventory management or the purchase of raw materials, in the production sector, or in the distribution network. Cost savings are usually high when the buyer and the acquirer belong to the same industry and within the same country. (Papadakis V., 2007)

Under the new IFRS 3, business combinations include mergers and acquisitions of asset groups that are separate business activities. Almost all mergers and acquisitions are controlled by IFRS 3, but some acquisitions are excluded (such as transactions involving joint ventures, consortia, etc.).

Under the European Community's Law there are two main ways of mergers. The former relates to absorption mergers where one or more companies, which are dissolved, transfer to another existing company all their property. The latter concerns a merger with the formation of a new company where one or more companies, which are dissolved, transfer to the other company acquiring all their property. In both of the above cases, the liquidated companies are not liquidated, as their property is not distributed to their owners, but is transferred to the new merged entity.

So the purpose and structure of this work reflect the effort to understand accounting methods that must be applied in accordance with IASB and IFRS 3 for mergers and acquisitions. Due to the difficulties and peculiarities of accounting records of mergers and acquisitions,

examples are given in this paper to facilitate accounting scientists and professional accountants.

In the second chapter of this paper is presented the literature review of mergers and acquisitions. The different types of mergers and acquisitions are also recorded and explained.

In the third chapter we present the main accounting entries of the accounting methods of mergers and acquisitions according to the IFRS 3.

In the fourth chapter we analyze examples considered under the Greek Law, IASB and IFRS 3. So accounting scientists and professional accountants will be able to have an idea of how some accounting entries of mergers and acquisitions are made.

2. Theoretical Background

In the last twenty years many scientist have been studying and investigating the literature about mergers and acquisitions (Gaughan, 2002). Appelbaum et al., 2007 in response to a lot of mergers and acquisitions activities in USA and in Europe considered the complex situation that appear from the interaction of two parties. Definition of mergers and acquisitions, in a broad sense, may be implied to many different types of transactions from alliances, purchases, cooperation, joint ventures, management buy-out and restructuring (Picot, 2002, p.15). However, Nakamura (2005) argues that using broad definitions could cause confusion and incorrectly comprehend everything from strategic alliances to pure mergers. Merger is the creation of new holding company by combining two firms (European Central Bank, 2000, Gaughan, 2002, Jagersma, 2005). Acquisition is purchasing shares or assets from another company in order to broaden the influence of the management (European Central Bank, 2000, Chunlai Chen and Findlay, 2003), when mutual agreement might not be necessary.

According to Nakamura (2005, p.18) mergers are referred to as two types of ‘merger by absorption’ or ‘merger by establishment’ (Chunlai Chen and Findlay, 2003, Nakamura, 2005). The absorbing merger happens when an enterprise buys all the stocks of another one and the absorbed enterprise stops from existing whereas establishment merger happens when both companies merge to create a new one while the combined companies are dissolved (Chunlai Chen and Findlay, 2003). Moreover, Nakamura (2005) considered the merger by absorption as the de facto acquisition. Thus the term ‘consolidation’ could also be used to refer to merger by an establishment (Gaughan, 2002). In acquisition, the acquiring firm may try to acquire certain shares or assets of the target firm.

In the first, the assets acquisition (Chunlai Chen and Findlay, 2003) takes place when a company buys all or part of the target company’s assets while the target company stays as a legal entity after the process. In the second, the share acquisition when a company buys a significant share of stocks in the target company which provides them managerial influence in the target firm. Moreover, depending on the amount of acquired share of stocks the acquisition is again classified into three types: (i) majority (50-99%), (ii) minority (less than 50%) and (iii) complete take over (100% of target’s issued shares) (Chunlai Chen and Findlay, 2003, Nakamura, 2005). In fact, mergers and acquisitions are distinct with different outcomes regarding tax liabilities, legal obligations and acquisition procedures (Marren,

1993). However, there is not attempt to separate the acquisition transaction from the merger when speaking about the final outcomes when firms combine together. Mergers and Acquisitions can be named Vertical, Horizontal or Conglomerate (Gaughan, 2002, Chunlai Chen and Findlay, 2003). In horizontal mergers and acquisitions, the acquiring companies and the target companies are competing firms in the same field. Chunlai Chen and Findlay (2003) argues, because of the international restructuring of many industries, horizontal mergers and acquisitions observed a rapid growth in recent years in response to liberalization of capital and technological change mainly in computing systems.

Acquisition is the act whereby one or more public limited companies (acquirers) transfer, after their liquidation, without liquidation, to another public limited company (acquirer) all their assets (assets and liabilities) in return for redemption to the shareholders of the acquirers, companies for the price of their shares (Leontari, 2008).

Two special cases of acquisitions and mergers are:

• The leveraged takeover of a company (Leveraged Buyout ή LBO)

This form of redemption has the characteristic that its financing comes largely from bank lending and not from the equity of the acquirer, which is why it is called leverage. It is considered to be one of the most aggressive ways of the acquirer with high risk taking at the same time, as financial leverage ratios tend to be pushed to particularly high levels, with severe adverse consequences in the event of failure of this business endeavor (Papadakis V. (2007).

A small group of investors acquires a company from a debt-financed transaction and withdraws it from the Stock Exchange. The loan is served by the operations of the absorbed company and often by the sale of its assets. In general, the management of the company remains the same and is compensated with benefits. The ultimate goal of this process is to keep the merged company running for some years until its value rises and its subsequent listing on the Stock Exchange as a stronger company. In other cases, the acquiring company resells parts of the business to other companies in order to enter into synergies. In any case, this process is done in anticipation of a high profit but the inherent risk arising from the borrowing is not negligible (Ehrhardt & Brigham, 2011).

• The acquisition of a company by its management (Management Buyout)

In this case, which is similar to the previous one, a company is acquired by its executives. In the case of large enterprises, which have high capitalization, as the acquisition of the business is very difficult to finance by executives, the acquisition refers to a regional or productive unit of the business (Papadakis V., 2007).

Management Buyout Acquisition uses a loan and it is organized and implemented by this company's management. Often, it requires a 'sponsor' who provides support for fundraising and access to lending through established relationships with financial institutions. The driving force behind this process is the belief that executives are able to create more value for business than current owners. The Acquisition of Executives

Managers eliminate the divergence of views between the Management and the Board of Directors - shareholders, since after the successful outcome of the process, the owners will take entirely the administrative decisions (Rosenbaum & Pearl, 2013).

According to Accounting Tools, when an acquirer buys another company and uses GAAP (Note 1), it must record the event using the acquisition method. This approach mandates a series of steps to record the acquisitions, which are (Accounting tools https://www.accountingtools.com/articles/2017/5/4/acquisition-method-of-accounting 25/11/2018):

1. Measure any tangible assets and liabilities that were acquired
2. Measure any intangible assets and liabilities that were acquired
3. Measure the amount of any noncontrolling interest in the acquired business
4. Measure the amount of consideration paid to the seller
5. Measure any goodwill or gain on the transaction

We will deal with each of these steps below.

A. Measure Tangible Assets and Liabilities: Measure tangible assets and liabilities at their fair market values as of the acquisition date, which is the date when the acquirer gains control over the acquiree. There are a few exceptions, such as lease and insurance contracts, which are measured as of their inception dates. However, most assets and liabilities should be measured as of the acquisition date. This fair value analysis is frequently done by a third-party valuation firm.

B. Measure Intangible Assets and Liabilities: Measure intangible assets and liabilities at their fair market values as of the acquisition date, which is the date when the acquirer gains control over the acquiree. This tends to be a more difficult task for the acquirer than the measurement of tangible assets and liabilities, since the acquiree may not have recorded many of these items on its balance sheet. Under GAAP, some intangibles cannot be recognized as assets.

C. Measure Non-controlling Interest: Measure and record the non-controlling interest in the acquiree at its fair value on the acquisition date. The fair value can be derived from the market price of the stock of the acquiree, if an active market for it exists. This amount is likely to be less per share than the price the acquirer paid to buy the business, since there is no control premium associated with the non-controlling interest.

D. Measure Consideration Paid: There are many types of consideration that may be paid to the seller, including cash, debt, stock, a contingent earnout, and other types of assets. No matter what type of consideration is paid, it is measured at its fair value as of the acquisition date. The acquirer should include in this consideration calculation the amount of any future payment obligations, such as earnouts.

E. Measure Goodwill or Bargain Purchase Gain: After all of the preceding steps have been completed, the acquirer must back into the amount of any goodwill or gain on a bargain purchase by using the following calculation:

Consideration paid + Non-controlling interest – Identifiable assets acquired + Identifiable liabilities acquired.

If this calculation results in a bargain purchase (formerly known as negative goodwill), then the acquirer has paid less for the acquiree than the fair values of its assets and liabilities indicate that it is worth. A bargain purchase is recognized as a gain as of the acquisition date. The many steps noted here to record an acquisition cannot always be completed in time to be accurately recorded in the accounting period when an acquisition is completed. If it appears that the accounting will be delayed, the acquirer should report its best estimates in the relevant accounting period, and then adjust those figures later, based on facts and circumstances that existed as of the acquisition date. Information arising at a later date may result in subsequent changes to asset and liability values, but they should not be used to retroactively adjust the recordation of the original acquisition entry.

3. Research Method

When a company wants to buy another company or merge with an organization, the financial departments must work together to prepare the accounting ledgers. The way a company values assets and account for stock can have an impact on how much profit from a sale or how much stock a company can get in a merger. Both companies must agree on the accounting method that they will use, because they will have one set of books for the transaction, even though two companies are involved. There are two main accounting methods that applied in the game of mergers and acquisitions (Kevin Johnston 2019):

(i) Pooling-of-Interests Method: Under the pooling-of-interests method, the stock in a company is eliminated and the acquiring company issues new stock to replace it. A company combines its assets with the acquiring company and values them at their historic book value. Historic book value is the original price of an asset minus depreciation that has been claimed. The target company receives cash in the deal in exchange for its stock and assets. The newly formed company assumes the liabilities of both previous entities. If the transaction is a merger, the target company may receive stock in the new company in exchange for its old stock.

(ii) Purchase Method: With the purchase method, the merged firm (the bidder and the target) shows assets at market value. Target sets this value in the negotiating process, and the buyer agrees to pay this value for target's assets. The purchase method also allows target to charge for goodwill. This is the reputation of the target. Target gets paid for its brand and customer-loyalty ratings because these have a value to the acquiring company. The purchase method can be used for a merger. When a target shows the purchase of its assets by the acquiring company, target indicate that it will be paid in stock. In this way, target can actually sell and gain partial ownership of the newly formed company.

Using the pooling method, the assets will have a lower value because historic book value is used instead of current market value. Book value is usually lower because of inflation. This means the newly formed company will receive less of a benefit in depreciation than it would if it values assets at current market value (as of the date of the acquisition). A target company can expect to receive less cash or stock for its assets under the pooling method because of using the lower value. Tax-free mergers and acquisitions use the pooling method. Though a company receives less money for its assets under this method, the company does not have to pay capital gains and taxes on the value of its assets because they are listed at the price the company bought them for minus depreciation. If a company uses the purchase method, assets are valued at market value and this creates a capital gain for acquirer. If a company chooses this method, it should make sure that the payments for goodwill make up for its capital gains and tax (Kevin Johnston 2019):

Both accounting methods are consistent with a strict interpretation of historic cost accounting. The issue is whether one company is effectively purchasing the assets of the other, so that the reference point for the historic cost of these assets is updated to the time of the acquisition, or whether the combination simply involves the coming together of two continuing entities. In merger accounting the group accounts are prepared as though the companies have always been together, so in the profit and loss account the full year's earnings of both companies are combined, and their comparative figures and five-year summaries are added together (Chris Higson 2019).

According to IFRS 3 there are differences in the accounting methodology whether it is a merger or acquisition. Below in the table 1 we list those differences to make them more understandable for the accounting scientists and professional accountants.

Table 1. The differences between acquisition accounting and merger accounting

	Acquisition Accounting	Merger Accounting
Consideration involving shares (group reconstruction relief and merger relief might be applicable here	Fair value	Nominal Value
Consideration involving cash or intra group loans	Actual Value	Actual Value
Net assets transferred	Fair Value	Book Value
Difference between consideration and net assets transferred	Recognised as goodwill	Not goodwill – adjusted against reserves
Restate comparatives to include transferred business	No	Yes
Profit and loss recognition	Post Acquisition only	Pre and Post-Acquisition

Source: https://library.croneri.co.uk/cch_uk/dgaap/b19-6-4

The acquisition accounting approach requires everything to be measured the amount a third-party would pay on the open market, at the time of acquisition — the date that the acquirer took control of the target company. That includes the following actions (https://www.investopedia.com/terms/a/acquisition-accounting.asp 2019):

- Tangible assets and liabilities: Assets that have a physical form, including machinery, buildings, and land.
- Intangible assets and liabilities: Nonphysical assets, such as patents, trademarks, copyrights, goodwill, and brand recognition.
- Non-controlling interest: Also known as minority interest, this refers to a shareholder owning less than 50% of outstanding shares and having no control over decisions. If possible, the fair value of non-controlling interest can be derived from the share price of the acquiree.
- Consideration paid to the seller: The buyer can pay in many ways, including cash, stock or a contingent earnout. Calculations must be provided for any future payment obligations.
- Goodwill: Once all those steps have been taken, the purchaser must then calculate if there is any goodwill. Goodwill is recorded in a situation when the purchase price is higher than the sum of the fair value of all identifiable tangible and intangible assets bought in the acquisition.

According to IFRS 6, merger accounting principles and policies will be applied to a business combination only if the combination satisfies all of the following conditions (Martin 13/8/2016 https://www.cleverism.com/lexicon/merger-accounting/):

- None of the parties is depicted as the buyer or the target
- All the parties are involved in the process of management selection and the decisions are agreed upon by consensus rather than by reference to their voting rights.
- The parties to the business combination are of relatively equal size.
- All of the equity shareholders of the combining businesses shall acquire full rights and interests in the performance of the combined entity.

There are many complexities associated with accounting for qualified mergers. The transformation of the two businesses into one unit involves many transactions and can take many forms, but the most important of all is the shareholder value creation and preservation. During the negotiation process, transactions must be undertaken only after rigor analysis has been conducted in order to fully appreciate the financial reporting implications. Some kinds of transaction structures may have pre-acquisition impacts or post-acquisition impacts on income. For example, complex capital structures, calls, puts, and other conditional provisions, may require classification of ownership interests outside of equity. These can create valuation complexities which may delay or even disrupt transactions if they are not identified earlier. The complexities in these transactions are numerous and there are special provisions and

guidelines in the Generally Accepted Accounting Principles to follow. These complexities include but are not limited to consolidation assessments, potential new basis issues, identification and accounting for financial instruments and derivatives, accounting for new stock compensation plans etc. It takes highly skilled accountants and experts in the field to identify and fully understand all the possible or potential issues involved in it. Since most companies may not have the requisite expertise in-house, it is prudent to seek experts' assistance during the early days of the negotiation process (Martin 13/8/2016 https://www.cleverism.com/lexicon/merger-accounting/).

At first we try to describe with the proper account entries the merger with absorption company from another company. Of course it goes without saying that we always refer to large corporations that have equity and shareholders. They are either listed or not listed on the stock market.

From the balance sheets of the merging companies we have to first find out what their share exchange relationship will be.

1. By placing in the numerator of the Fraction the equity of the company shown in its balance sheet and denominating all the shares it holds, the value of the share is calculated. This must be done for both companies.

2. In order to find the share exchange ratio, we take the above stock values and divide it by dividing the value of the buyer's shares into numeric and denominating the merged stock's denominator. The result of the fraction shows how many shares of the absorbed company need to be exchanged in order for its shareholders to acquire 1 share of the absorber.

3. To find the number of shares that the absorbed company's shareholders will receive, divide the number of shares held by the absorbed entity into the share exchange ratio.

A) Entry in the Books of the Absorbed

Table 2a. Adaptation of the balances of the experts' report absorbed

N/A	ACCOUNTS	CREDIT	DEBIT
Adjust the balances of the absorbed to the exposure values.			
1.	11 Buildings	+	
	41.99 Valuation differences		+
Evaluation Differences of the Committee of Experts.			
2.	41.99 Valuation differences	+	
	All fixed assets		+
	44 Provisions		+

Table 2b. Obligation to pay income tax to the IRS

N/A	ACCOUNTS	CREDIT	DEBIT
Transfer of counter accounts to main accounts.			
1.	XX.99 Depreciated fixed assets	+	
	All fixed Assets		+
Accounting for net profit distribution.			
2.	88.99 Earnings for distribution	+	
	41 Reserves		+
	42 Earnings after taxes all reserves and dividends carried forward to Equity.		
	54.07 Tax Earnings	+	
N/A	ACCOUNTS	CREDIT	DEBIT
Transfer all the Assets of the absorbed to the absorber			
1.	89.01 Closing Balance Sheet	+	
	All the elements of Balance Sheet		+
Transfer all the liabilities of the absorbed to the absorber			
2.	XX.99 Depreciated fixed assets	+	
	54.07 Profit Income Tax		+
	44 Provisions	+	
	All other liabilities		
	89.01 Balance Sheet closing		+
Transfer of equity accounts to shareholders' accounts			
3.	40 Equity	+	
	41 Reserve Equity	+	
	42 Earnings after taxes all reserves and dividends carried forward to Equity	+	
	33.03 Shareholders		+

Source: IFRS 3

This is the way to close the accounts in the books of the absorbed outside the shareholders' account.

The shareholders' account will be closed as soon as the shareholders receive equity absorbing shares, which will be given to the shareholders of the merged entity.

Records of receipt and distribution of shares of the acquirer to the shareholders of the acquirer.

The amount determined by the Committee of Experts for the equity of the merged entity is the amount that will increase the acquirer's capital and for that amount new shares of the merged entity will be issued in place of the canceled shares. During the interim period until the merged entity closes, a profit is deducted, an amount is given to the government as an income tax, and from the resulting balance we deduct the regular reserve and have a gain of 42 to be transferred to the merged entity. Amount deducted from:

1. State Income Tax (54.07)

2. Regular reserve (41.00)

Which were transferred to the 42 retained earnings balances is what enhances the equity of the acquirer and which will ultimately increase the equity of the acquirer.

Table 3. Example 1 for the receipt of the shares and their delisting to the shareholders of the merged entity, the subscriptions will be made

N/A	ACCOUNTS	CREDIT	DEBIT
Receipt of the new shares of the absorbed for delivery to the shareholders of the absorber.			
1.	18.00 Sharings in affiliated companies	+	
	89.01 Balance sheet closing		+
Receipt of the new shares of the absorbed for delivery to the shareholders of the absorber.			
2.	33.03 Shareholders	+	
	18.00 Sharings in affiliated companies		+

Source: IFRS 3

B) Entries in the Accounting Books of Absorber

Table 4. At the end of the merger the absorber now owns all the assets of the absorbed and this event has to imprint to the accounting books of the absorber company

N/A	ACCOUNTS	CREDIT	DEBIT
1.	All fixed assets	+	
	All the other Assets	+	
	89.00 Opening balance sheet		+
Acquire of the assets of the absorbed			
2.	89.00 Opening balance sheet	+	
	XX.99 Depreciated fixed assets		+
	44 Provisions		+
	54.07 Profit Income Tax		+
	All Liabilities		+
Acquire the liabilities of the absorbed			
3.	33.03 Shareholders	+	
	40.00 Paid-up capital		+
Share capital increase of the absorbed because of the merge.			
4.	89.00 Opening balance sheet	+	
	33.03 Shareholders		+

Source: IFRS 3

The above accounting entities complete the acquisition of the assets of the merged entity and the increase in the share capital-equity.

Fixed assets that acquired are recorded at the values of the Committee of Experts report while other Assets and liabilities values at the values found in the inventory as soon as the acquirer ceases to exist.

C) Accounting Application of the Goodwill of the Merge

The Goodwill arising on the valuation of the assets of the acquiring company will be shown in the accounts of the acquirer.

In the books of the acquirer any goodwill appeared in account No. 41.99. Estimated differences which was incorporated and was part of the net position contributed to the acquirer.

In the books of the absorber it appears in order: 04.10 Goodwill of acquired assets.

Example 2: Merger with absorption SA by another SA holding 100% of its shares

The merger is the same as in the case of absorption of another SA but there are particularities in the records of the acquirer's books because there is no increase in its share capital.

Table 5. Entries in the accounting books of absorber

N/A	ACCOUNTS	CREDIT	DEBIT
1.	All fixed assets	+	
	All other assets	+	
	89.00 Opening balance sheet		+
Acquire the Assets of the absorbed			
2.	89.00 Opening balance sheet	+	
	XX.99 Depreciated fixed assets		+
	All the Liabilities		+
	44 Provisions		+
	54.07 Profit Income Tax		+
Acquire the liabilities of the absorbed			

Source: IFRS 3

The numbers credited above are the values contained in the books of the absorbed. The account 89 works temporarily as a continuation intermediary for the purposes of the merger. After the above accounting entries, the account 89 shows a credit balance and the account 18 has a debit. Both accounts 89 and 18 must be closed:

The account 89 must be closed because it worked only temporarily to appear in the accounting books of the acquirer the accounting process of the acquirer's assets.

The account 18 must be closed because it contains the acquisition value of all the shares of the merged company, which after acquiring and appearing in the books of the acquirer of the elements of the acquirer - ceased to have value and were canceled.

According to the example, the package of all the shares of the merged company had been acquired by the acquirer against X value and with this value was shown in its accounting books.

However, the equity of the absorbed is less than this amount. The difference must also appear in the assets of the absorber, while identifying what this difference represents, whereas the acquirer had allocated X value amount for the acquisition of all the shares of the acquirer. If the equity of the absorbed is greater, it is reasonable to assume that the difference represents some intangible goods (reputation and customer).

Table 6. Consequently, this value should go to the goodwill of the enterprise, namely

N/A	ACCOUNTS	CREDIT	DEBIT
Appearance of goodwill			
3.	89.00 Opening of Balance Sheet	+	
	16.00 Goodwill of a firm	+	
	18.00 Sharings in affiliated firms		+
If the above view is not accepted then the difference is recorded as follows:			
4.	89.00 Opening of Balance Sheet	+	
	81.02.90 Company absorption difference	+	
	18.00 Sharings in affiliated firms		+
5.	38.00 Cash Account	+	
	33.03 Shareholders		+

Source: IFRS 3

If the acquirer had acquired and displayed in its books the package of the shares of the absorbed for 100 million Euros while the share capital of the absorbed is 129 million Euros, then obviously the acquirer acquires through the merger assets that are more than the value it had available to acquire the shares of the absorbed over 29 million Euros.

Table 7. This difference will be credited as a special reserve

N/A	ACCOUNTS	CREDIT	DEBIT
6.	89.00 Opening Balance Sheet	+	
	18.00 Sharings in affiliated firms		+
	41.04.00 Reserve from Goodwill absorbed		+

Source: IFRS 3

Table 8. In the rare case where the value of the shares of the acquiring company in the acquirer's books was the same as the acquirer's Equity the accounts 18 and 89 would be closed as follows

N/A	ACCOUNTS	CREDIT	DEBIT
6.	89.00 Opening Balance Sheet	+	
	18.00 Sharings in affiliated firms		+

Source: IFRS 3

Example 3: Merger SA with the formation of a new company

The accounting procedure followed in this case shall include:

i) The closure of the accounting books of the merging companies, which cease to exist when it is registered with the Registry of Companies.

ii) The opening of the new company accounting books resulting from the merger. The new company is required to operate a start-up inventory with the assets listed therein from the mergers and keep it in the inventory and balance sheets.

The new company included in the inventory the assets of the other two companies that closed and contributed to the newly formed company. The sum of the two companies' equity is now the share capital of the new company. The number of shares held by the new company it results from the division of the share capital into the number of shares.

D) The accounting entries that must be made in the accounting books of new company are those of its recommendation that are set out below.

Table 9. Accounting entries for new company

N/A	ACCOUNTS	CREDIT	DEBIT
Entries for initial company formation			
1.	33.03 Shareholders	+	
	40.02 Equity payable of common stocks		+
Coverage of the initial equity of the new company			
2.	All fixed Assets	+	
	All the other assets	+	
	89.00 Opening Balance Sheet		+
Contribution of the Assets of the two companies that were closed. This is done with two different entries for each company.			
3.	89.00 Opening Balance Sheet	+	
	XX.99 DDepreciated fixed assets		+
	All other liabilities		+
Contribution of the liabilities of the two companies that were closed. This is done with two different entries for each company.			
4.	89.00 Opening Balance Sheet	+	
	33.03 Shareholders		+
5.	40.02 Equity payable of common stocks.	+	
	40.00 Paid equity share capital of common stocks.		+

Source: IFRS 3

From subsidiary ledger of the accountants ensue some book balance which they will be the begging amounts of the new opening balance sheet

Example 4: According to the Greek Law

Acquisition

In Greece the acquisition is based on the relevant provisions of Codified Law 2190/1920 and Legislative Decree 1297/72, so if the valuation of the acquired assets reflects goodwill, it will not be taxed at the time of the acquisition.

i) Accounting and book closing of the acquired company. The application for the establishment of the Committee of Experts shall be accompanied by a balance sheet with the date of acquisition, for example. 31/5/2018 reads as follows:

ii) Evaluation report of the Committee of Experts. The Commission's assessment shows that goodwill, for example, only for the building, is reflected in a relevant Commission report. It follows the preparation of the takeover contract, its approval by the general meetings of the shareholders of the two companies, the signing of the contract before a notary public and its submission to the Supervisory Authority for approval.

iii) Preparation of a company balance sheet. With the registration in the Registry of Companies the takeover authorization, the entries will be made regarding the takeover merger and closing of the acquired company books. To achieve this, a new inventory needs to be made and a balance sheet drawn up after the appropriate entries have been made. For the preparation of this balance sheet, depreciation has been calculated for the period 1/6/2018 to 31/8/2018 for example. Depreciation for the period 1/6/2018-31/8/2018 was calculated on the acquisition cost of the assets and not on the value it gave to the Committee of Experts is firmly established. Depreciation has been transferred to the principal accounts of the fixed assets and reduced to their acquisition value. Depreciation and amortization of the period were recorded in separate accounts of the fixed assets and remain because they will be transferred to the acquirer's books.

E) Assets and Liabilities adjustment entries to exposure data

Table 10a

N/A	ACCOUNTS	CREDIT	DEBIT
Adjustment of the value of the fixed assets (buildings) to the expert committee's assessment			
1.	11 Buildings	+	
	81.90 Valuation differences		+

Table 10b. Transfer entries of assets and liabilities of the acquired to the acquired

Transfer all assets from the target company to the acquirer company.			
2.	89.01 Closing Balance Sheet	+	
	All fixed Assets		+
	All the other Assets		+
3.	XX.99 Depreciated Fixed Assets	+	
	All other liabilities	+	
	89.01 Closing Balance Sheet		+

Table 10c. After the transfer entries, the acquirer must register the purchase price amount of the acquisition

4.	38.00 Cash Account	+	
	89.01 Closing Balance Sheet		+
	81.91 Profit from the sale of the company		+

Table 10d. Calculation of income tax resulting from the sale

5.	81.91 Profit from the sale of the company	+	
	54.07 Profit Income Tax		+
6.	54.07 Profit Income Tax	+	
	38.00 Cash Account		+

Table 10e. Closing accounts and books of the target company (acquired)

7.	40 Equity	+	
	41 Reserves	+	
	81.90 Valuation Differences	+	
	81.91 Profit from the sale of the company	+	
	53.90 Shareholders of the takeover product		+

Table 10f. Payment of the buyer price to the beneficiaries

8.	53.90 Shareholders of the takeover product	+	
	38.00 Cash Account		+

Source: IFRS 3

F) All accounts in the acquired company books are now closed.

Table 11. Displaying the profit from the sale of the property acquired by the acquirer entries in buyer's books

N/A	ACCOUNTS	CREDIT	DEBIT
1.	All fixed Assets	+	
	All the other Assets	+	
	16.00 Goodwill of the Company	+	
	XX. 99 Depreciated fixed assets		+
	All the other Liabilities		+
	53.90 Shareholders of the takeover product (Acquired company)		+

When the acquisition price is paid by the acquirer;

2.	53.90 Shareholders of the takeover product	+	
	38.00 Cash Account		+

Accounting application of the Goodwill of the fixed assets

This will be done in off balance sheet accounts (contra accounts or memo accounts).

N/A	ACCOUNTS	CREDIT	DEBIT
1.	04 Information debt accounts	+	
	04.10 Goodwill of acquired company's assets		+
	08 Information credit accounts		+
	08.10 Goodwill of acquired company's assets	+	

Source: IFRS 3

4. Findings and Discussion

According to the above mentioned accounting entries we give a full example Applying Equity Method so as all the accounting entries will be more understandable.

Example (Papageorgiou G., 2019):

On 2.1.2016, RADIO SA purchased 40% of the voting shares of TV SA for € 400,000. The net position of TV on 2.1.201X is as follows:

Common shares 100,000 X named value 2 € per each = 200,000

Premium difference of 600,000

Reserves and profits to new 200,000

Total 1,000,000

We assume that 40% of the value of the books of TV SA corresponds to 40% of the net assets and therefore there is no difference between the fair value and the book value of the assets. In 201X TV SA made a net profit of € 120,000 and paid a dividend of € 40,000. Handle accounting (40% tax deduction).

<u>Solution</u>

The net position of TV SA as at 31.12.2016 is as follows:

Common shares 100,000 X named value 2 € per each = 200,000

Premium difference of 600,000

Reserves and profits to new 280,000

Total 1,080,000

RADIO SA will make the following entries:

Accounts	Credit	Debit
Credit Billing Account		
36 Participations		
36.02 Holdings in relatives	48,000	
74 Revenue from interests		
74.01 Dividends on associates' associations		48,000
Investment return ratio 120,000 X 40% = 48,000		

Accounts	Credit	Debit
Credit Billing Account		

38 Cash and cash equivalents		
38.02 Facial deposits	16,000	
36 Participations		
36.02 Holdings of relatives		16,000
Dividend collection		

In the books of RADIO SA the investment in TV SA appears as:

Initial Investment	400.000
Plus Earnings (40%)	48.000
Minus dividend	(16.000)
Final amount of investment	432.000

While for future taxes that will pay due to the proceeds from TV SA, it will register

Accounts	Credit	Debit
69 Income tax		
69.01 Current tax (expense)	19.200	
59 Deferred tax liabilities		
59.00 Deferred tax liability		19.200
Deferred tax liability 48,000 ×40% = 19,200		
Accounts	Credit	Debit
59 Deferred tax liabilities		
59.00 Deferred tax liability	6.400	
54 Income tax		
54.01 Income tax payable		6,400
A tax of 20,000 / 60,000 ×24,000 = 8,000		

It is noted that IAS 12 adopts the tax liability method and is based on the expected effect of reversing temporary differences.

We assume that next year 201X + 1 the investor RADIO SA sells his entire investment in TV SA for € 460,000. The accounting entries are as follows:

Accounts	Credit	Debit
38 Cash and cash equivalents		
38.02 Deposits of	460,000	
36 Participations		
36.02 Holdings in relatives		432,000
75 Profits from the disposal of non-current assets		
75.03 Profits from the disposal of financial assets		28,000
Sale of Investment		
Accounts		
69 Income tax		
69.01 Current tax (expense)	11.200	
59 Deferred tax liabilities		
59.00 Deferred tax liability	12,800	
54 Tax liabilities - fees		
54.01 Income tax payable		24,000
Sales tax payable (460,000–400,000) × 40% = 24,000		

5. Conclusion

After the entrance of global financial crisis in Europe and especially in Greece more and more businesses are seeking to acquire and merge, affected by the domestic and international competitive environment. Mergers and acquisitions are a strategic move where two companies in general are merged to achieve specific strategic goals and create added value for both the acquiring and the acquired companies. Mergers and acquisitions are huge transactions, not just for the companies but for all stakeholders, namely shareholders, managers, employees, competitors, consumers and even sometimes for the Government. For this reason, the companies need to be particularly careful when undertaking such action. They have to study properly both the external and internal environment, to analyze the risks, impacts as well as the benefits or disadvantages, and how the aforementioned groups will be affected.

Moreover accounting with the latest IASB legislation is now a serious science, which requires rigorous application by professional accountants to keep abreast of ongoing developments. Accounting is also related to the financial analysis of the financial statements of companies and banks. The serious financial markets require companies to report their

financial performance in a way which is informative, consistent and comparable with IFRS. The availability of unbiased measures of company performance is also vital for regulation and for shaping public policy towards business. So if the accounting methods are not applied properly by the accountants then all financial analyzes give wrong results with significant consequences for the companies. Particularly in mergers and acquisitions, the buyer may make incorrect estimates for the target company and pay more than the fair price. Finally, the acquired business risks losing its value and its shareholders earnings will be less than normal.

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Note

Note 1. Generally accepted accounting principles (GAAP) refer to a common set of accepted accounting principles, standards, and procedures that companies and their accountants must follow when they compile their financial statements. GAAP is a combination of authoritative standards (set by policy boards) and the commonly accepted ways of recording and reporting accounting information. GAAP improves the clarity of the communication of financial information (https://www.investopedia.com/terms/g/gaap.asp)

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