



FINANCIAL ACCOUNTING II

III. Mergers, Divisions and Consolidation

1. Mergers and Divisions



CONTABILIDADE GERAL II

III. Mergers, Divisions and Consolidation

1. Mergers

- Legal base: 97° to 117° CSC
- Mergers project
 - Pre-merger balance sheets; the exchange relation between the parts; The merger date ;
- The statement of the ROC
- Fiscal and juridical issues
- The economic and financial reasons
- Types of Mergers
 - Merger by Incorporation: $A + B = A$
 - Merger by Constitution: $A + B = C$

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III. Mergers, Divisions and Consolidation

1. Divisions

| | Purchase Method |
|-------------------------|---|
| Scope | Generalized |
| Accounting Methods | By the acquisition value, adjusting assets and liabilities at their fair value |
| Acquisition methodology | Acquisition for cash, shares of the acquiring* firm or by debt emission or by assuming liabilities. |

* Using own shares or shares in the portfolio or issuing new shares.. It should be considered at the fair value. The differences are recorded as premiums or gains.



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III. Mergers, Divisions and Consolidation

1. Mergers

| | Purchase Method |
|--|--|
| Accounting treatment for the difference OE and Acquisition value | <u>OE* > Acq. Value</u> , the difference must: - revalue the identification and the measurement of assets , liabilities and identifiable contingent liabilities of the acquired and the of concentration; and - Recognize immediately in the results any excess from . <u>Acq. Value > OE*</u> , the difference is called <i>Goodwill</i> |
| Concentration costs | Add to the acquisition value |

OE* = Net Owners Equity adjusted (after adjustment in the assets and liabilities at fair value) weighted by the own percentage



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1. Mergers

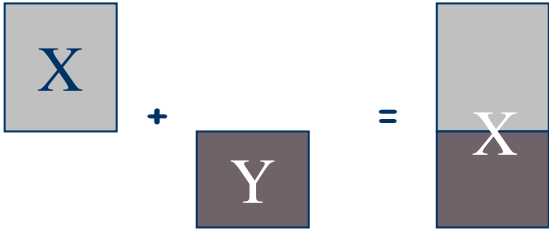
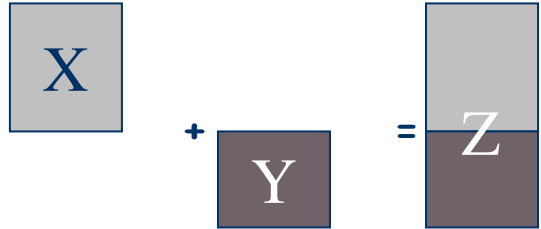
□ Characteristics

- Extinction of the merging firms simultaneous with the transfer of rights and obligations, what distinguishes the merger of dissolution and liquidation;
- Fusion entails cancellation of old shares and acquisition of new;
- The date of the merger is important to make the distribution of the results obtained by the companies to incorporate or merge;
 - In the period prior to the date of the merger, the results belong only to members / shareholders of that company.
 - In the period after the date of the merger / data defined in the Merger, results belong to the acquiring company or the new society (the treatment of these results was not unanimous, being considered as part of the OE or as an adjustment to be made retrospectively in Reserves Merger / Goodwill. This implies that Book value shares and total value of OE is different, because it includes the RL).

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1. Mergers

| Merger by Incorporation | Merger by constitution |
|---|--|
|  |  |
| <ul style="list-style-type: none"> ♦ X incorporates Y (assets and liabilities), Y extinguishes (debit accounts with creditor balance and in return credit accounts with debtor balance, or using account 261 in return) ♦ X gives to the shareholder of Y shares or realizes the increase in capital (in the amount of the participation that the shareholders of Y have right to). | <ul style="list-style-type: none"> ♦ X and Y merge (become extinct) and comes Z ♦ Extinction by debit / credit accounts with a balance creditor / debtor and may be used as a contrast to 261 ♦ The capital of the new company is the sum of assets to incorporate, with possible adjustments in the exchange ratio of shares that must be treated as goodwill or reserve merger. . |

Adaptado de Contabilidade das Sociedades, 11ª Ed, pgs 460-461

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1. Mergers

□ Merger by constitution *

- The number of shares to be delivered to the members / shareholders of the incorporated company is given by the ratio:

$$OE_{\text{incorporated}} / \text{Book value of the shares}_{\text{acquiring}}$$

- The total number of shares after the merger shall maintain the book value of the shares of the acquiring company (the value of the shares in the company being acquired, now with a new number of shares):

$$OE_{\text{incorporada}} + OE_{\text{acquiring}} / \text{Book value shares}_{\text{acquiring}}$$

* calculations designed to ensure that the new shareholders are not harmed nor benefited compared to the old and vice versa.



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1. Mergers

Merger by Incorporation*

- The exchange ratio of shares in the company being acquired by the acquiring company's shares is given by:
$$\text{Book value shares}_{\text{incorporated}} / \text{Book value shares}_{\text{acquiring}}$$
- The treatment of the difference between the assets sold and the capital increase is not unanimous. It can be treated as emission premium or as fusion Reserve

* calculations designed to ensure that the new shareholders are not harmed nor benefited compared to the old and vice versa.



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1. Mergers

- Merger by constitution
 - The OE of the new firm results from the sum of the OE of the "old" firms as a new OE - Capital (51) + Emission Premium (54).

Mergers (by constitution or by incorporation)

Any minor adjustments to the value of the assets passed if:

- Partners / shareholders of the "old" receive money from their holdings;
- Get recognized any goodwill in the assets transmitted from companies;
- The property is passed by value other than the book (with all the tax implications involved).

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1. Mergers

Accounting records:

- ❑ Incorporated Firms
 - ❑ Extinction of firm:
 - ❑ Highlight all the assets in exchange for 261;
 - ❑ Highlight all the passive elements for consideration for the 261;
 - ❑ Undo all accounts in exchange for the CP 261 (which is netted out).
- ❑ Acquiring firm:
 - ❑ Capital Increase - Nominal Value(51) and Emission Premium (54), against Subscriber Capital (261/262);
 - ❑ Realization / Liberation subscription - Value Assets / Liabilities for consideration for the 261/262, which is netted. Eventually it will be assigned a value of Goodwill.
 - ❑ Transfer between the Capital Accounts (from 5111 to 5112).



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1. Divisions

- ❑ Legal Basis: 118° to 129° CSC.
- ❑ The process by which a society becomes two or more entities, and may take several formats.
- ❑ The project reflects the division of legal and economic aspects of the operation:
 - ❑ Enumeration of assets and liabilities to be drawn from society;
 - ❑ Interest / Payment to partners / shareholders of the company in the division process (possible exchange ratio of shares);
 - ❑ Date on which the operations of the company being no longer part of this;
Articulation of the contractual position of companies in relation to employment contracts in force, which is not extinguished with the division.



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III. Mergers, Divisions and Consolidation

1. Divisions

- ◆ There are constraints / constraints specific to each form of division and different accounting procedures, however, there is always the reduction of capital of the Company to the division.
- ◆ Accounting Procedure:
 - Highlight the assets, against the 261;
 - Highlight the assets liabilities, against the 261;
 - Reduction of Capital, against the 261 (which is netted out) - the capital account to reduce depend on the method of financing the operation, eg, Reserves or Capital. The amount of reduction is given by the difference between the assets and liabilities Heritage highlighted.



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III. Mergers, Divisions and Consolidation

1. Divisions

Types

- Simple Division is a new company with assets highlighted);
- Division Dissolution (patrimony gives rise to two or more companies and society initial lapse
- Division Merger (patrimony blends with existing companies or as part of the assets of other companies). The merger can be by incorporation or formation. The fission-fusion can take several subforms:
 - Partial Division- Total Merger
 - Partial Division- Partial Merger
 - Total Division - Total Merger
 - Total Division - Partial Merger



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1. Divisions

Division - Merger

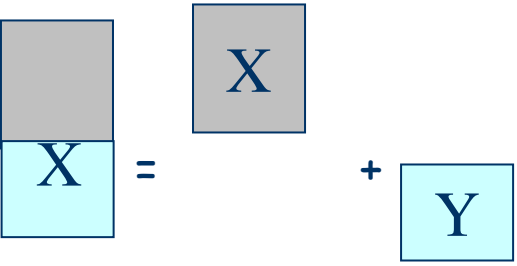
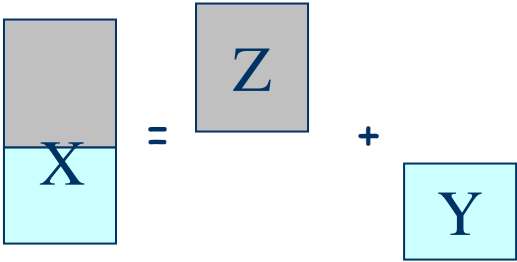
- Partial division - Total Merger** - if the firm does not extinguished (as in simple division);
- Total Division - Partial Merger** - if the firm extinguishes;
- Partial Division - Total Merger** - if the divided patrimony is totally incorporated in other existing form ou in a firm created in the operation;
- Partial Division - Partial Merger** - if the divided patrimony is incorporated with the patrimony of other firms originating new firm (s)

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1. Divisions

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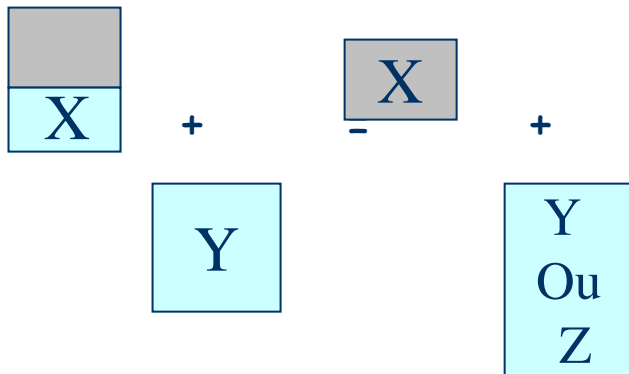
| Type | Description | Accounting records | Scheme |
|---------------------|--|---|---|
| Simple Division | Part of the patrimony of the firm will constitute a new firm | X - transference of the values and reduction in capital; Y - constitution of a firm with the transferred patrimony |  |
| Division Extinction | The firm is extinguished and divides the patrimony. Each part will constitute a new firm | X - Extinction of the firm; Y, Z - constitution of firms with the transferred patrimony |  |

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1. Divisions

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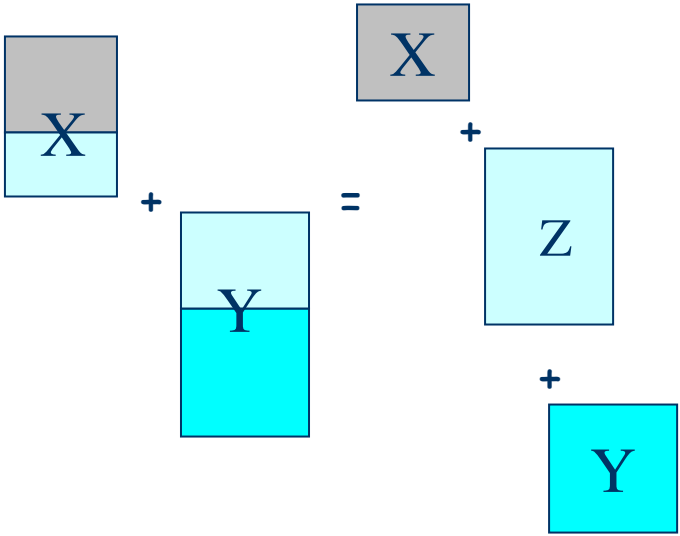
| Type: Division/Merger | The firm divides or part of the patrimony will be used to merge in another firm | | |
|------------------------------------|---|---|--|
| Type | Description | Accounting records | Scheme |
| Partial Division - Total Merger | Firm does not extinguishes but part of the patrimony will be used to merge with another firm that already exists or that is created | X - Transference of the values and reduction in capital; Y - Received the patrimony and increased capital or alternatively the extinction; Z - Constitution of a firm with the transferred patrimony. |  |

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1. Divisions

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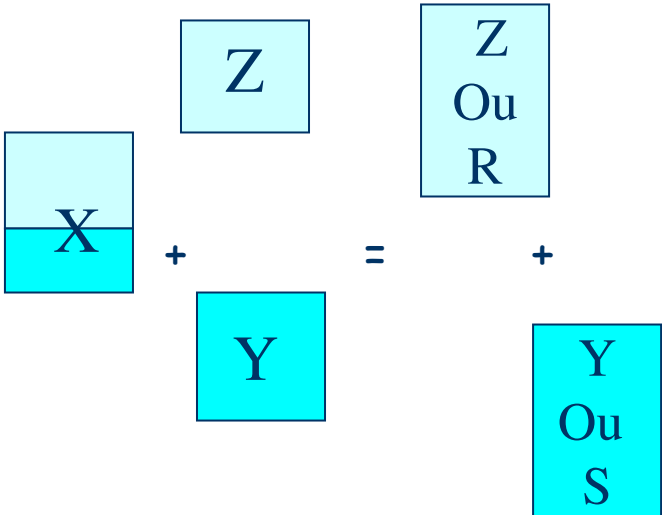
| Type | Description | Accounting records | Scheme |
|-----------------------------------|---|--|--|
| Partial Division - Partial Merger | The firm does not extinguished but part of the patrimony will be used to merge with other firms, with the same goal | X - Transference of values and reduction in capital; Y - Transference of values and reduction in capital; Z - Constitution of a new firm with the transferred patrimony. |  |

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1. Divisions

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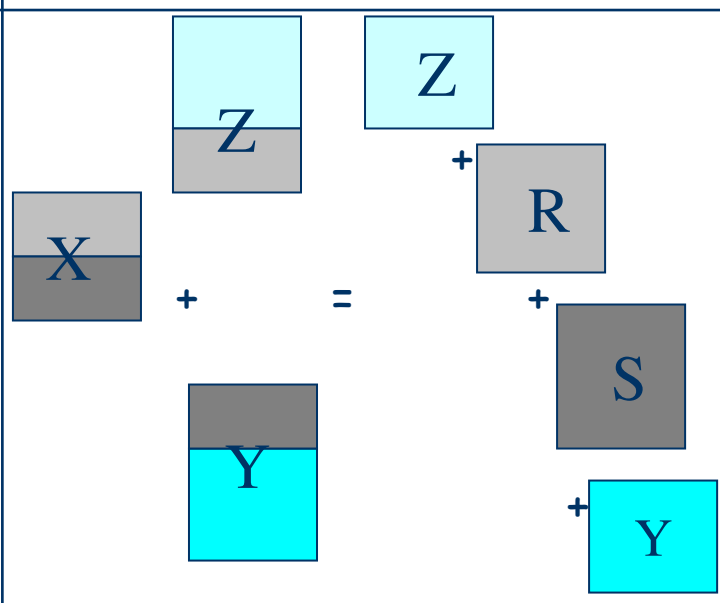
| Type | Description | Accounting records | Scheme |
|-------------------------------|--|--|--|
| Total Merger - Total Division | The firm extinguished and divides the patrimony into 2 or more parts to merge with parts of the patrimony of other firms with the same goal. | X - Extinction of the firm; Y, Z - Receives the patrimony and increase of capital or extinction; R, S - Constitution of firms with the transferred patrimony |  |

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1. Divisions

Adapted from: “ de Contabilidade das Sociedades, 11ª Ed, pgs 470”

| Type | Description | Accounting records | Scheme |
|---------------------------------|--|--|--|
| Total Division - Partial Merger | The firm extinguished and divides the patrimony into 2 or more parts to merge with parts of the patrimony of other firms with the same goal. | X - Extinction of the firm; Y, Z - Transference of values and reduction capital; R, S - Constitution of firms with the transferred patrimony |  |