LICENCIATURA EM GESTÃO, MAEG, FINANÇAS

Financial Accounting II

III - EXERCISES

CAPITULO III

Mergers
Divisions

Consolidation

Exercise 1 – Mergers

The Company B to acquire the Company A, but given the reluctance of shareholders of the company, proposed a merger of Company A. Knowing that the nominal value of each share of both companies is € 1 and that the balances from the date it was agreed that the operations have already fell in the merger are as follows:

Request:

1. **The exchange ratio of shares .**
2. **The value of the increase in capital of Company B.**
3. **The premium/reserve of the merger.**
4. **The journal records for both companies**

Balance Sheet of firm A

Assets		**Owners Equity and Liabilities**	
Fixed Tangible Assets	60,000	Capital	50,000
Inventories	20,000	Reserves	30,000
Clients	10,000	Transitory Results	-30,000
State	1,000	Net Income	-10,000
Other accounts receivable	5,000	Total OE	**40,000**
Other Financial instruments	3,000	Obtained Loans	30,000
Banks	500	Suppliers	30,000
Cash	500	Total Liabilities	**60,000**
Total Assets	**100,000**	Total OE and Liabilities	**100,000**

Balance Sheet of firm B

Assets		**Owners Equity and Liabilities**	
Fixed Tangible Assets	80,000	Capital	100,000
Inventories	30,000	Reserves	40,000
Clients	50,000	Transitory Results	10,000
State	11,000	Net Income	20,000
Other accounts receivable	20,000	Total OE	**170,000**
Other Financial instruments	3,000	Obtained Loans	20,000
Banks	15,000	Suppliers	30,000
Cash	11,000	Total Liabilities	**50,000**
Total Assets	**220,000**	Total OE and Liabilities	**220,000**

Exercise 2 – Mergers

- By determination of the shareholder's General Meeting from K, SA and L. SA, with the assent given by the surveillance and met the legal obligations, it was decided to merger both companies, giving rise to a new company M. SA, in which is allowed the participation of new shareholders.

The Balance sheets of both companies is the following (in u.m.):

Balance Sheet of K, S.A.

Accounts	Value	Accounts	Value
43	20.000	51	25.000
32	14.000	55	5.000
21	5.000	**OE**	**30.000**
11	500	24	1.500
		25	2.000
		22	6.000
		Liabilities	**9.500**
Assets	**39.500**	**OE + Liabilities**	**39.500**

Balance Sheet of , S.A.

Accounts	Value	Accounts	Value
43	10.900	51	15.000
32	5.000	56	(4.000)
24	1.500	**OE**	**11.000**
21	4.000	27	3.000
11	600	23	2.000
		25	6.000
		Liabilities	**11.000**
Assets	**22.000**	**OE + Liabilities**	**22.000**

The shares nominal value was 0,5 u.m. each.

- Company M., S.A. was created with a capital of 60.000 u.m., divided into 60.000 shares.

- To the shareholders of the companies involved in the operation, it was given the following shares:
  Company K, S.A. – 3 new shares by each 4 detained
  Company L, S.A. – 1 new share by each 2 detained
  The rest of the shares were subscribed and realized by entrance in cash, by private persons.

- It was attributed to company A, SA a Goodwill value of 5.000 u.m.

- The shareholders of K and L and the new shareholders gave the money before the signature of the new firm..

Request:

1. **The operation journal records.**
2. **The Balance Sheet after the operation**
3. **Evaluate the situation of the different shareholders before and after the merger.**

Exercise 3 – Divisions

Company NovaGes - Consulting, SA, is in the business of information technology consulting and sells computers and similar equipment. This company decided to grow by constituting a new firm– NovaTec, SA, with the following elements:

- 50% of the Fixed Tangible Assets;
- 30% of the Accounts to receive from Clients;
- 20% of the other Financial Instruments;
- 50% of the Bank deposits;
- 24% of the obtained loans.

Assuming the balance sheet of 31/12/2009 from NovaGes, SA and knowing that the unit nominal value of each share is € 5 (that also applies to the new company):

Balance Sheet of NovaGes, SA

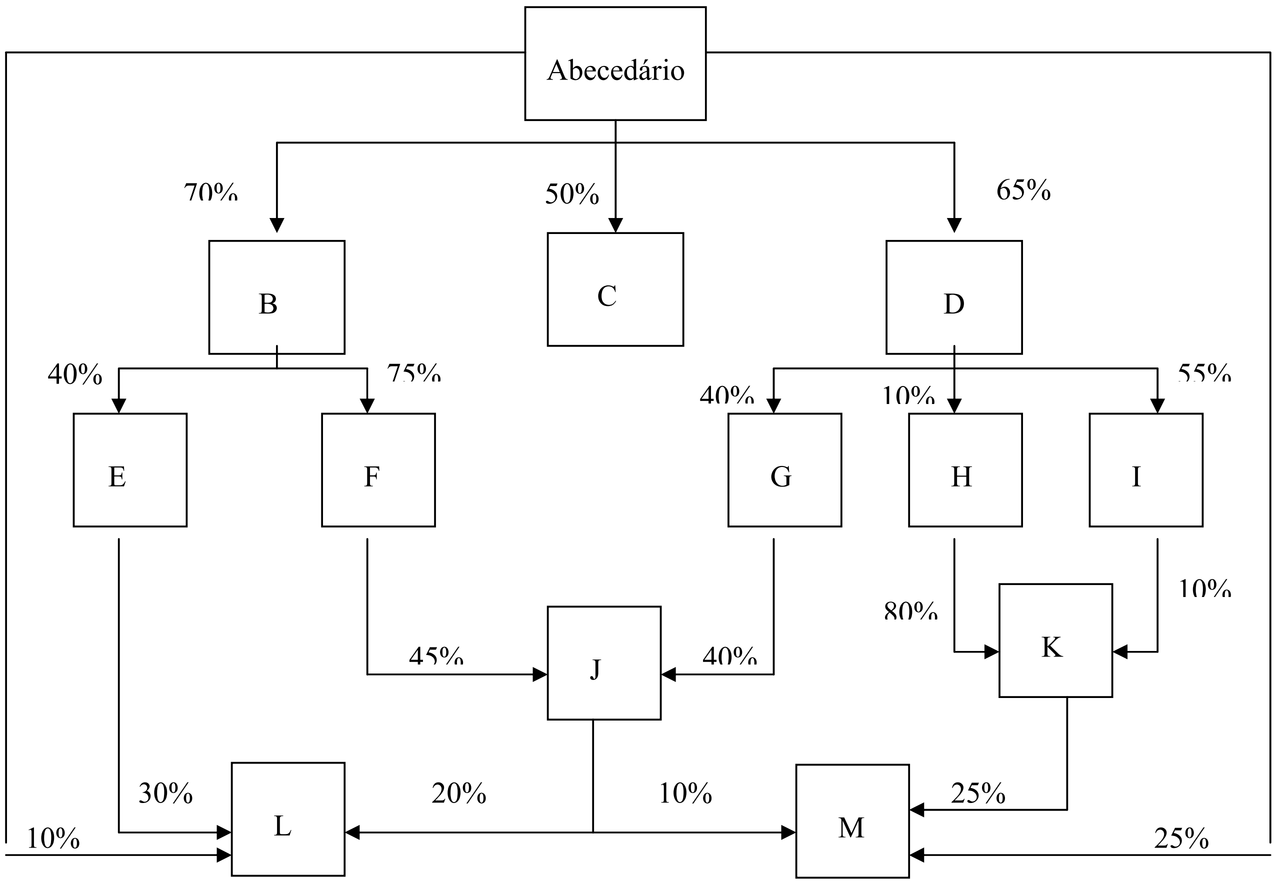
Assets		**Owners Equity and Liabilities**	
Fixed Tangible Assets	100,000	Capital	100,000
Inventories	50,000	Reserves	30,000
Clients	30,000	Transitory results	-20,000
State	500	Net Income	10,000
Others accounts to receive	10,000	Total OE	**120,000**
Financial Instruments	15,000	Obtained loans	58,335
Banks	4,000	Suppliers	31,665
Cash	500	Total Liabilities	**90,000**
Total Assets	**210,000**	Total OE and Liabilities	**210,000**

Request:

1. **The journal records for Company NovaGes, SA.**
2. **The Balance Sheet of NovaGes, SA after the division.**
3. **The journal records for the constitution of Company NovaTec, SA.**
4. **The Balance Sheet of NovaTec, SA.**

Exercise 4– Interests and control percentages and consolidation methods

In 31st December 2008, the financial department of ***Abecedário, SA*** made the organizational structure of the group controlled by ***Abecedário, SA***.



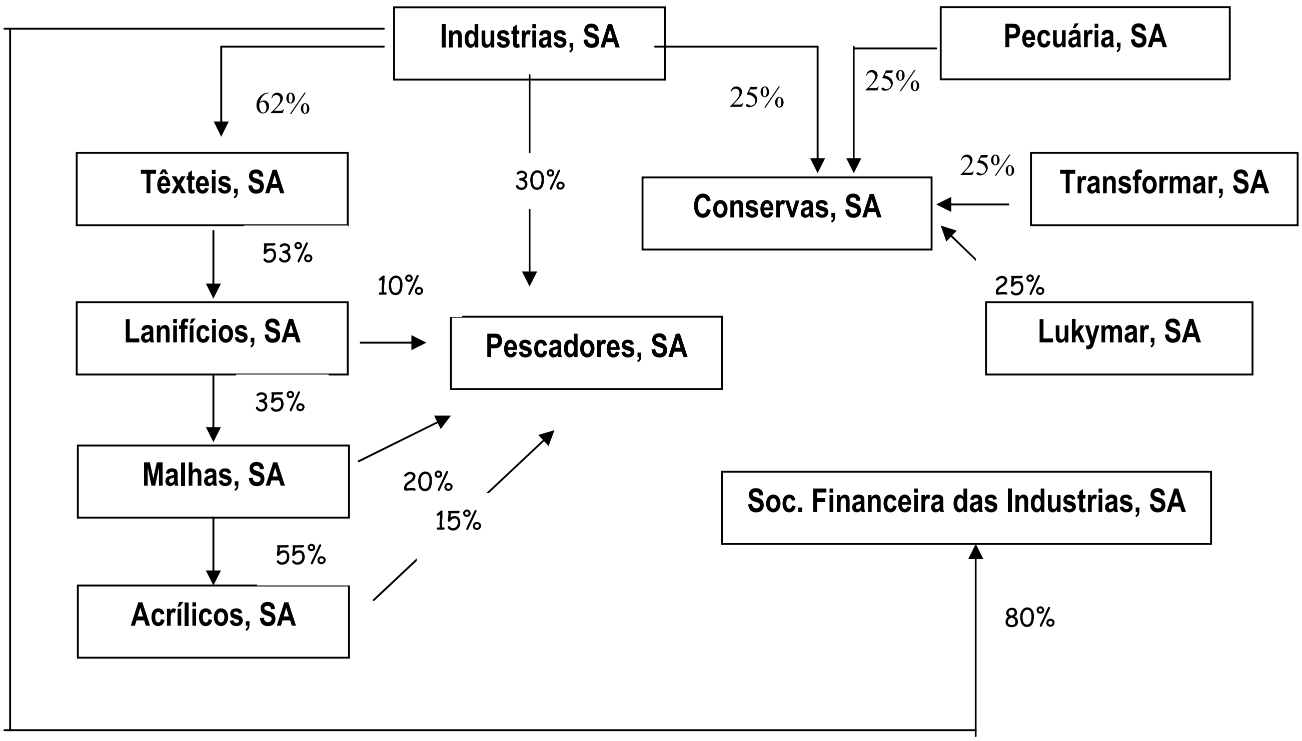
Request:

1 – Determine the financial percentage and the control percentage of Abecedário, SA, in the participated firms directly and indirectly.

2 – What is the consolidation method to apply to these firms? Explain.

Exercise 5 – Interests and control percentages and consolidation methods

In 31st December 2008, the organizational structure of the group "Industrias, SA" was the following:



Request:

1 – Determine the financial percentage and the control percentage of Industrias, SA, in the participated firms directly and indirectly.

2 – What is the consolidation method to apply to each of the referred firms. Indicate if there are minority interests.

3 – What firms may be excluded?

Exercise 6– Consolidation Operations

Firm ABC owns part of BCD, acquired in the beginning of N for 300.000 Euros. At the acquisition date , Owners Equity of BCD was:

Capital	375.000 Euros
Reserves	60.000 Euros
Transitory Results	(5.500) Euros

The acquired nominal value was 225.000 Euros.

The following information refers to year N:

1. Sales of BCD to ABC summed 175.000 Euros. The margin was 20% on the Sales price. Firm ABC had in stock at 31/12/N, 60.000 Euros of inventories that acquired to BCD.

2. Firm ABC did and impairment of inventories of about 5% of its stock.

3. BCD wrote a debit of 15.000 Euros to ABC, corresponding to diverse services.

4. Of these services, it is still to pay 7.500 Euros.

5. Sales of ABC to BCD during N were 25.000 Euros, and the margin was 10% on the sale price. Firm BCD had no stock related to this..

Request:

Do the consolidation using the annex tables. Use the global method. Justify all the movements and adjustments.

Balance Sheet at 31/12/N

	ABC	BCD	Adjustments		Consolidated Balances
			Debit	Credit	
Assets					
Intangible Assets	62,500	20,000			
Consolidation Differences					
Fixed Tangible Assets	370,000	180,000			
Accumulated Depreciations	-82,500	-27,000			
Financial Investments	325,000	10,000			
Inventories	608,000	410,000			
Accounts to receive	975,000	455,000			
Cash and Banks	140,000	35,000			
Total Assets	**2,398,000**	**1,083,000**			
Owners Equity and Liabilities					
Capital	700,000	375,000			
Reserves	30,000	60,000			
Transitory Results	90,000	-5,500			
Net Income	64,500	22,500			
Minority Interests					
MI					
Net Income - MI					
Accounts to pay	1,513,500	631,000			
Total OE and Liabilities	**2,398,000**	**1,083,000**			

Net Income at 31/12/N

	ABC	BCD	Adjustments		Consolidated Balances
			Debit	Credit	
Sales	4,880,500	2,190,000			
Services	64,000	16,000			
Cost of sales	-3,725,000	-1,750,000			
External Services	-490,000	-151,000			
Staff expenses	-395,000	-200,500			
Depreciations	-22,500	-27,000			
Impairments	-32,000	-6,000			
Financial expenses	-215,500	-49,000			
Net Income - MI	0				
Net Income	**64,500**	**22,500**			

Exercise 7 – Consolidation Operations

MegaH, SA, owns, with a strategic partner, **Logo, Lda**. Each shareholder owns 50% of the capital of **Logo, Lda**. The acquisition of this participation has the date of the beginning of 2008 in the amount of 500.000€.

MegaH, SA believes that did a good deal because at the acquisition date there was a building that was under valuated in 200.000€. During 2008 it was sold. With the sale, the firm obtained a gain of 500.000€.

In order to proceed with the consolidation, the firm has the follwing balance sheets and information:

- **Logo, Lda** sold to **MegaH, SA** inventories for 200.000€, that had cost 400.000€. These inventories were sold by **MegaH, SA** for 500.000€. The debt is still active.
- **MegaH, SA** sold diverse equipment to **Logo, Lda** in the amount of €100.000€. These equipment was acquired by 150.000€. The average depreciation rate was 10% and there were already 5 years of accumulated depreciations. The new depreciation rate is 20%. The operation was done for cash.
- The results of 2007 of both firms were totally incorporated in reserves
- **MegaH, SA** record its financial participations at the acquisition cost

Request

1. **Identify the position of each firm in the consolidation process.**
2. **Identify the consolidation method to apply.**
3. **Determine the consolidation differences.**
4. **Record in the journal of the firm the consolidation process.**
5. **Do the consolidate balance sheet, filling in the table in the next page.**
6. **Comment the acquisition by MegaH in order to grow strategically and comment the operations between both firms.**

Balance sheet at 31/12/2008

	MegaH	Logo	Agregado	Adjustments		Consolidated
				Debit	Credit	
Assets						
Fixed Tangible Assets	3,000,000	1,000,000				
Accumulated Depreciations	-1,000,000	-300,000				
Consolidation differences						
Financial Investmenrts	4,500,000	600,000				
Inventories	500,000	800,000				
Accounts to receive	200,000	400,000				
Cash and Banks	300,000	100,000				
Active differed taxes						
Total Assets	**7,500,000**	**2,600,000**				
Owners Equity and Liabilities						
Owners Equity and Liabilities						
Capital	4,000,000	500,000				
Reserves	100,000	300,000				
Transitory Results	200,000	-200,000				
Net Incole	800,000	200,000				
Total OE	*5,100,000*	*800,000*				
Liabilities						
Long term Obtained loans	2,000,000	750,000				
Suppliers	400,000	1,050,000				
Other accounts to pay						
Public sector						
passive differed taxes						
Total Liabilities	*2,400,000*	*1,800,000*				
Total OE and Liabilities	**7,500,000**	**2,600,000**				

Exercise 8 – Consolidation Operations

Tico-Tico, SA acquired, in the beginning of 2006, a participation of 40% of **Teco-Teco, SA**, in the amount of 280.000€. At this date the Owners Equity of this firm was:

(Euros)

Capital	250.000
Emission Premiums	160.000
Revalorization Excess	50.000
Reserves	200.000
Transitory Results	-60.000
Total	600.000

In the subsequent years there were the following variations of Owners Equity in **Teco-Teco**:

2006	Net income	-40.000
2007	Cover of accumulated losses	100.000
2007	Reinforce of revalorization reserves	50.000
2007	Net Income	60.000
2008	Dividends distributed	25.000
2008	Net Income	100.000

Request:

1. **Record in the journal using the patrimonial equivalence method in firm Tico-Tico.**

2. **Fill in the table:**

Firm **Teco-Teco –** Owners Equity composition at 31/12/2008

(Euros)

Capital	
Emission Premiums	
Revalorization Excess	
Reserves	
Transitory Results	
Total	