Research on the Accounting Treatment of Business Combinations

Wei Xu [1]

[1] Jiangxi College of Foreign Studies, Nanchang, Jiangxi, 330099

54892713@163.com

Keywords: Accounting Problems; Business Combinations; Financial Flow

Abstract. Business combination refers to a company obtains control of another or a number of companies, or the joint result of two or more enterprises. Opinion No. 16 entered into force since November 1970 American Accounting Principles Board (Accounting Principles Board) promulgated the "merger" of the enterprise merger under the first paragraph is defined as: A business combination is a company with one or several companies or unincorporated organization's business into one accounting entity. The accounting entity to continue to engage previously separated from each other, independent of business activities. Germany's "opposition to restricting competition Law" Article 37 stipulates: Business combination refers to the way an enterprise can jointly dominant influence on another enterprise directly or indirectly occur. EU September 21, 1990 merger regulations in force: Business combination refers to one or more companies, or a control individual enterprises, acquire all or direct control or indirect control over the part of one or more companies; its forms can be purchase business assets, stocks, or using the form of contracts and other forms.

Introduction

Merger has its positive side also has its negative side. First, the positive role of the performance of the business combination is: can extend outside the enterprise in order to rapidly expand business without competition, and improving the long-term profitability, significant cost savings companies expand, they can quickly improve their short-term borrowings ability, and that business combination may give interested parties on tax benefits, the combined business owner who, in the interests of its existing enterprises to exchange a large stake in the company, rather than the sale of a business to get cash, you may be exempted from tax burden on. In the case of companies being merged accumulated losses from prior years, if the tax law allows such losses to offset taxable income in previous years or mergers after year, the merger will give the combined company on a tax benefit, if was incorporated enterprises long-term losses, cannot get enough of the future taxable income, the enterprises cannot obtain the benefit of this tax alone. For business managers, it can expand business scale through mergers, to improve their status. Secondly, the negative effects are very clear: if the business combination exceeds the limits of necessity and it is easy to form a monopoly, and the formation of monopolies inevitably exclude other competitors to enter the market, thereby undermining the market order, impair fair competition, so make operators raise prices, leading to price increases, harm the interests of consumers, it is not conducive to the healthy development of the market. Therefore, the rational use of the business combination to achieve the purpose of the operators, to enhance the competitiveness of enterprises, so it is possible to maintain the harmonious development of the market, business owners need to incorporate the correct choice of the business combination method. It also requires business owners of the business combination method can have a comprehensive knowledge and understanding.

The Accounting Type of Business Combination

1) The merger. Merger, also known as merger refers to the way a business through the issuance of stock, cash or issuing bonds made one or several other businesses. After the merger is completed, only the merging parties still maintain the original legal status, are combined company lost its original legal personality and as part of the combined company engaged in production activities.

2) Consolidation. New merger refers to the merger of two or more companies jointly set up a new business, the company's shares in exchange for each of the original with a new enterprise shares. After the new merger, the original enterprises are losing legal personality, and by the newly established enterprise unified engaged in production activities. (3) Holding merger. Holding merger, also known as acquired a controlling interest, is an enterprise acquire all or part of another enterprise voting shares by way of a cash payment, issue shares or bonds. After obtaining a controlling interest, the original companies still to separate legal entities engaged in production activities.

Accounting Method of the Business Combination and Its Impact

Industry merger effect is an important factor to consider mergers and acquisitions strategy. While the acquisition of using different accounting methods, reflected in the financial report on income would have different effects.

The purchase method of recording assets acquired and liabilities assumed in business at fair value, and to determine goodwill. On the one hand, due to the effects of inflation, asset value assessment is usually higher than its book value, present and accompanied by goodwill. Such translated into cost, the amount is greater than the cost of the legitimate rights and interests set (including the amortization of the fair value over book value and goodwill), leading to subsequent reports annual profit is less than the use of legitimate rights and interests set; the other hand, When set using the equity book value valuation legitimate, the recipient can purchase a higher fair value of the sale of those assets, so that the rapid growth of profit for the year, if not sold, at the lower of the carrying value of assets denominated costs and expenses also increased profits effect. So a set of legal rights and interests, tend to make business on the surface appears to have a good capital structure, good profitability and growth. This is the business managers keen to report, and one of the important reasons for the use of legitimate rights and interests set in the merger. Specifically, the purchase method of Rights and Interests of the different accounting treatment, have an impact on the carrying effect of mergers and acquisitions as follows:

1). The effect on the financial situation. The purchase method the acquisition of company's assets and liabilities at fair value on the acquisition date are reflected in the consolidated balance sheet, and the recognition of goodwill, and the purchase of assets, liabilities recipient of places on the table to reflect the original historical cost; using the equity Set valid, the acquired company and purchased by the company's assets, liabilities accounting basis unchanged at its original historical cost. Thus, two methods will form different asset, liability structure. Under normal circumstances, the amount of assets under the purchase method of collection is greater than the lawful rights and interests. Under the purchase method, the project owner's equity, mergers and acquisitions when paying money in a way other than cash or stock, and shareholders 'equity after the merger, is still the recipient of the original purchase of the shareholders' equity; if issued stock acquisition, the purchase by the party The part of the increase in shareholders' equity after the merger, the newly issued shares of the total market. The total capital and equity is set to become a legitimate part of the purchase under the corporate recipient of capital, retained earnings are transferred to the purchase by the party making the purchase to increase earnings retained by the recipient.

2). The impact on profit and loss. If the merger occurs in the period, gains and losses under the purchase method of purchase by the end of the calculation of the recipient, including their own gains and losses realized this year, plus the party since the acquisition date and realized gains and losses. But the use of legitimate rights and interests set, the merger can be seen as the beginning merger, and its annual profit or loss includes gains and losses realized by the company throughout the year. In addition, due to the higher value of assets under the purchase method, and most of these assets after the merger to be converted to the costs or expenses, which in turn leads to lower cost of the purchase method to the legitimate rights and interests of more than the set; or the legitimate rights and interests under the due collection , according to the book value of assets denominated in, while the book value is usually lower than the fair price and, that these assets will be able to increase profits after the merger.

Visible, set the legitimate rights and interests can reflect more than the purchase method in more profits on the income statement; the same way by issuing shares to make acquisitions, equity interests often set lower than the legally incorporated under the purchase method, therefore, the use of legitimate rights and interests set, They tend to have higher ROE after the merger. Because of this, for those ambitious or their bonus linked to the purchase accounting income and corporate managers, they may tend to choose common stock as acquisition tools for using the equity set legally in accounting, resulting in higher reported earnings.

Evaluation and Selection of a Business Combination Method

For the above purchase method and the legitimate rights and interests set, the accounting profession has a different view.

1). Purchase excellent law disadvantages. In favor of using the purchase method of people believe that the purchase method has the following advantages: First, the purchase method is easy to reflect the economic nature of the property as a mergers and acquisitions transactions, and in accordance with the conventional historical cost principle, namely the purchase of assets by the purchase price accounting. Second, in almost all mergers and acquisitions, the acquisition of another business is a business. A company acquired by another company, and the acquisition of the company and the acquired company are usually identified apparent. Third, mergers and acquisitions are an important economic matters-property transactions, it is a bargain between the results of an independent body, it is bargaining in the evaluation of existing conditions and future prospects, based on nothing to do with the cost of their records. Fourth, mergers and acquisitions, whether through allocation of assets, assumption of debt, or issuing shares, it is equally treated using the purchase method. In the issue of shares when a company must determine the value of the stock issued it received was fair, that the fair value of cash before it is paid for the stock, the stock received is similar to the fairness of the transaction evaluation. Therefore, regardless of the nature of mergers and acquisitions, mergers and acquisitions is a bargain deal.

2). Set the legitimate rights and interests of the advantages and disadvantages. In favor of the legitimate rights and interests set that the interests of legitimate collection has the following advantages: First, set the legitimate rights and interests, through the issuance of common shares, all of the resources has not changed, so its accumulated earnings are the same, therefore, the historical cost of each company and retained earnings should be suitably combined. The second is a collection of equity trading is essentially an agreement between the shareholders groups, they each transfer of risk and reward, continue their investment risk before, is a continuation of the existing enterprises, therefore, to maintain the original book value, as the acquisition of net assets denominated property naturally. Third, the development of legitimate rights and interests set within the range of the historical cost of the system together, it is consistent with the historical cost. To pre-merger and compare information, should also be consolidated results of operations of the combined historical cost report. Fourth, the legitimate rights and interests set does not change the historical cost, which is conducive to investors and other users of information and a comprehensive understanding of the history of operating conditions and asset quality is the enterprise, in order to facilitate them to forecast future profitability of the combined company. Fifth, prepare accounts according to the book, both to avoid the press and then establish accounts Tiaozhang assessment work, but also to avoid the assessed value was adjusted to simulate complex accounting procedures preliminary results, thus greatly reducing the workload. Sixth, under the purchase method, the fair value will lead to business after the merger as part of the asset book value accounting, which resulted in inconsistent accounting valuation methods.

Conclusion

In the future business combination accounting guidelines, the purchase method and the legitimate rights and interests set selection more reasonable to maintain a mutually exclusive relationship. Thus, the combined accounting choices depends on whether the merging parties have the ability to make agreements in advance in line with the corresponding condition, that the merger decision makers according to their own needs, a reasonable arrangement.

References

[1] Xu-Xiao J, Discussion the Combinations Innovations in Russia, Technological Innovation Herald, 2010 No.29.

[2] Chen Xinyuan, Dong Hua. Merger Accounting Method Selection: A Case Study. Accounting Research, 2000 (2).

[3] Dong Zhiyong. Factors Consolidated Accounting Treatment of Choice. Finance and Accounting, 2000 (2)