

# [Example of consolidations report](https://assignbuster.com/example-of-consolidations-report/)

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## Report

Corporate takeover   
In a corporate takeover, two methods are commonly used. There is the purchase method and secondly the pooling of interest method. The first is applied where the acquirer can be identified while the latter is used where the acquirer cannot be identified. In a corporate takeover, several aspects of valuation are necessary. They are as follows – share valuation, valuation of business, valuation of fixed assets and shareholder agreement (Solomon, 2011).   
In the event of a corporate takeover, the financial statements are adjusted so as to remove items which are not reflective of the ongoing business on a continuous basis. To begin with, assets that are not a part of the business operations are removed from the balance sheet. This is done in order to provide an accurate reporting of the financial status of the new entity. Secondly, the excess cash is removed from the balance sheet (Murray, 2010). However, this occurs when the negotiations involved the cash.   
Thirdly, there is an adjustment in the income statement. The aim in this case is to remove the non recurring income items and expenses. These include expenses on lawsuits or gain/losses on disposal of an asset. The other items are wages and salaries. These are adjusted to current levels. This goes to the owner salaries as they involve a lot of subjectivity and the new owner may not keep up the salaries.   
Consider GTE Ltd, which took over, Bell Atlantic Limited in the year 2011. In this case, GTE Ltd was the acquirer. The various statements before the takeover are as follows.

## Bell Atlantic Limited

Income Statement   
For the Year Ended December 31st, 2011   
Revenues $ $   
Sales revenue 100000   
Gain on disposal of machinery5000   
Total revenues105000   
Expenses   
Rent expense 15000   
Supplies expense 4500   
Wages and salaries2000   
Loss on law suit 1000   
Total expenses (22500)   
Gross profit82500   
Less: income taxes(23500)   
Net profit59000   
Bell Atlantic Ltd   
Owner's Equity Statement   
For the year ended December 31st, 2011   
$

## Capital on January 1 550, 000

Add: net income 59000 609000   
Less: drawings ( 9000)   
Equity on December 31600000   
Bell Atlantic Ltd

## Balance Sheet

As at ended December 31st, 2011   
Assets $ $   
Fixed assets   
Property and equipment 1000000   
Vehicles 200000   
Current assets   
Accounts receivable 400000   
Cash and cash receivables100000   
Total assets 170000   
Liabilities and Owner's Equity   
Accounts payable 250000   
Long term loan 850000   
Owner’s equity 600000   
Total liabilities and owner’s equity 1700000   
The financial statements for Blue Shield are as follows.   
GTE Ltd   
Income Statement   
For the Year Ended December 31st, 2011   
Revenues $ $

## Sales revenue 250000

Recovery of bad debts 10000   
Total revenue260000   
Less: expenses   
Rent expense 25000   
Supplies expense 6000   
Wages and salaries5500 (36500)   
Gross profit 223500   
Less: income tax (44500)   
Net profit 179000   
GTE Ltd   
Owner's Equity Statement   
For the year ended December 31st, 2011   
$

## Capital on January 1 850, 000

Add: net income 179000 1029000   
Less: drawings ( 150000)   
Equity on December 31879000   
GTE Ltd   
Balance Sheet   
As at ended December 31st, 2011   
Assets $ $   
Fixed assets

## Property and equipment 1700000

Vehicles 350000   
Current assets

## Accounts receivable 650000

Cash and cash receivables230000   
Total assets 2930000   
Liabilities and Owner's Equity

## Accounts payable 980000

Long term loan 1071000   
Owner’s equity 879000   
Total liabilities and owner’s equity 2930000   
After GTE Ltd took over Apex Ltd in 2011, various items in the financial statements changed in line with the takeover. After the takeover, GTE would retain its entity while Bell Atlantic would cease to exist. Assets that are not part of the business for GTE will be removed. In this case, suppose the vehicles were taxi cabs for Bell Atlantic. Since GTE is in Hotel business only, it would not use the cabs. Instead, it would continue with the hotel business operated by Bell Atlantic which was its main target.   
GTE would record cash from its own accounts as opposed to the sum for both companies. The wages would reflect the actual wages paid by GTE. The nonrecurring items i. e. the loss on the law suit would not be recorded as it is nonrecurring. In addition, drawings would be those for GTE and not a sum for both companies. This is as required by International Accounting Standards. The consolidated financial statements would look as follows in 2011.   
GTE Ltd   
Income Statement   
For the Year Ended December 31st, 2011   
Revenues $ $   
Sales revenue 250000   
Recovery of bad debts 10000   
Total revenue260000   
Less: expenses   
Rent expense 25000   
Supplies expense 6000   
Wages and salaries5500 (36500)   
Gross profit 223500   
Less: income tax (44500)   
Net profit 179000   
GTE Ltd   
Owner's Equity Statement   
For the year ended December 31st, 2011   
$

## Capital on January 1 850000

Add: equity for Bell Atlantic Ltd (December 31st)600000   
Add: net income 179000 1629000   
Less: drawings ( 150000)

## Equity on December 311479000

GTE Ltd   
Balance Sheet   
As at ended December 31st, 2011   
Assets $ $   
Fixed assets

## Property and equipment 1700000

Add: PPE for Bell Atlantic Ltd 1000000   
Vehicles 350000   
Current assets

## Accounts receivable 650000

Cash and cash receivables230000   
Total assets 3930000   
Liabilities and Owner's Equity

## Accounts payable 280000

Add: accounts payable from Bell 250000   
Long term loan 1071000   
Add: long term loan from Bell850000   
Owner’s equity 879000   
Add: owner’s equity from Bell600000   
Total liabilities and owner’s equity 3930000

## References

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Murray, J. (2010, August 14). How are Financial Statements Adjusted for a Business Valuation? . Retrieved May 12, 2013, from http://biztaxlaw. about. com/od/valuingabusiness/f/financialadjustvalue. htm: http://biztaxlaw. about. com   
Solomon, F. (2011). Accounting for Business Combinations and Corporate Reorganizations. Jounal of Analysis of Finacial Statements , 6.