Example of consolidations report

Finance, Investment

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

Drummond, T. (2009). Corporate Valuation for Takeovers. The Journal of Corporate Finance , 23.

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.