

RELEVANCE OF THE ACCOUNTING INFORMATION FOR THE MERGERS AND ACQUISITIONS IN ROMANIA

ALIN EMANUEL ARTENE, AURA EMANUELA DOMIL
TIBISCUS UNIVERSITY OF TIMISOARA, DALIEI STR., NO. 1A,
WEST UNIVERSITY OF TIMISOARA, V. PARVAN BLVD., NO. 4
artene_alin@yahoo.com, auraemanuela@yahoo.com

Abstract:

In the Romanian economic environment entities are operating, we can find a large number of factors that obstruct the development of many economic entities such as: the perpetual economic and financial crisis, bureaucracy, inflation, competition and many others. In our opinion a solution to overcome the difficulties Romanian economic entities are facing is merger or acquisition. The relevance of the advance accounting process such as merger and acquisition can be a support for many small and medium sized enterprises witch in the last year had functioned at the same parameters as the year before. Trough merger this type of entities can harmonize their production process, find ways to develop new and improved products and production processes and last but not least increase the percentage of research and development among Romanian economic entities.

Key words: financial accounting, merger, acquisition, assets and liabilities, goodwill

JEL classification: M41

1. INTRODUCTION

In this period of crisis one solution for firms to overcome the negative effects of this perpetual financial and economic crisis is to merge. The acquisitions and mergers are a viable solution to avoid windings.

Every entity in Romania must be self-conscious of the impact that its activity has, which will reflect upon the opportunity to explore the economic and social advantages that rises from merging with other economic entities .Because every entity is unique in its own way, merging will bring up front al advantages of this particular type of operation.

Depending on the character and personality of each entrepreneur, he will act differently in the statement of business development.

According to a survey conducted by the National Council of Private Small and Medium Sized Enterprises in Romania and the Agency for Implementation of Projects and Programs for SMEs coordinated by Prof. Univ. Dr. Ovidiu Nicolescu¹ 85 per cent of the total number of small and medium sized firms in Romania function at the same parameters as the years before or have reduced their activity. Only 15 per cent of the firms identified means to improve their activity and are developing.

In this type of environment, in which Romanian entities are operating, many factors obstruct the development of firms such as: the perpetual economic and financial crisis, bureaucracy, inflation, competition and many others.

¹ Ovidiu Nicolescu "White Paper on SMEs in Romania", X-th edition, 2012

Difficulties of Romanian firms in 2012

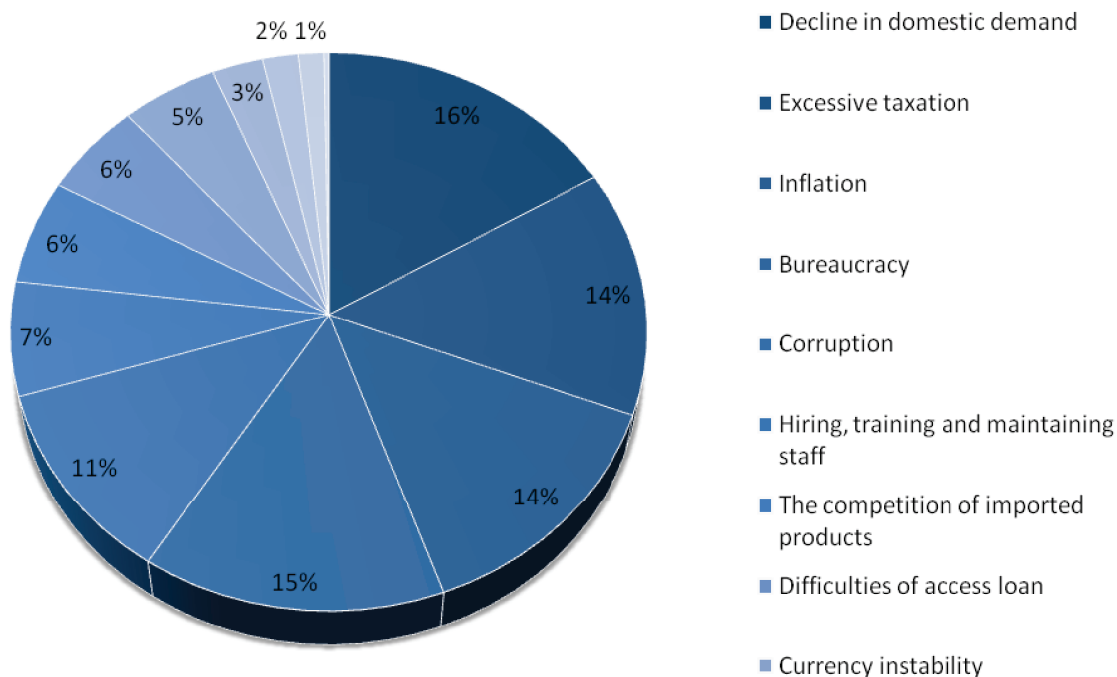


Figure 1. Major difficulties of romanian companies in 2012

Source: White Paper on SMEs in Romania²

2. MERGERS AND ACQUISITIONS IN ROMANIA

In our opinion a solution to overcome the difficulties Romanian economic entities are facing is merger or acquisition of companies

The main forms of acquisitions are mergers or consolidation, acquisition of assets and last but not least acquisition of stock. The merger is the operation where two or more entities, each separately, decided to unite in order to carry out a commune activity.

From the economic point of view the merger of enterprises produce the following effects: harmonization of the structure of production; improvement of the technology, simplifying the management structure, the possibility of funding internal research, and specialization of production. The merger can be achieved by two forms: by acquisition or by merging. If one entity acquires assets from another the merger is achieved through acquisition of assets therefore the selling entity doesn't disappear due to retaining a part of its subscribed capital. Another form of merger is to purchase the entity trough its voting stock and receive shares, cash or equivalents of cash or other type of securities.

Observing the entities which are merging we can outline the effects: the dissolution without liquidation of the entity witch ceases its existence, the transfer of

² Ovidiu Nicolescu "White Paper on SMEs in Romania", X-th edition, 2012

assets (assets and liabilities) of the entity which ceases the existence towards the entity which benefits from the merge, the acquisition of associates of the company receiving the contribution of associations that dissolves and inheriting the quality of associates of the benefiting entity by the associates of the entity which ceases to exist.

In Romanian accounting there are two methods used to record a merger of two entities: result method and capitalization method. These methods apply differently depending on the form of a merger, acquisition or merger. Because of the tax consequences, as well as administrative steps that involve considerable costs, merger by absorption is preferred in the detriment of merger by melding.

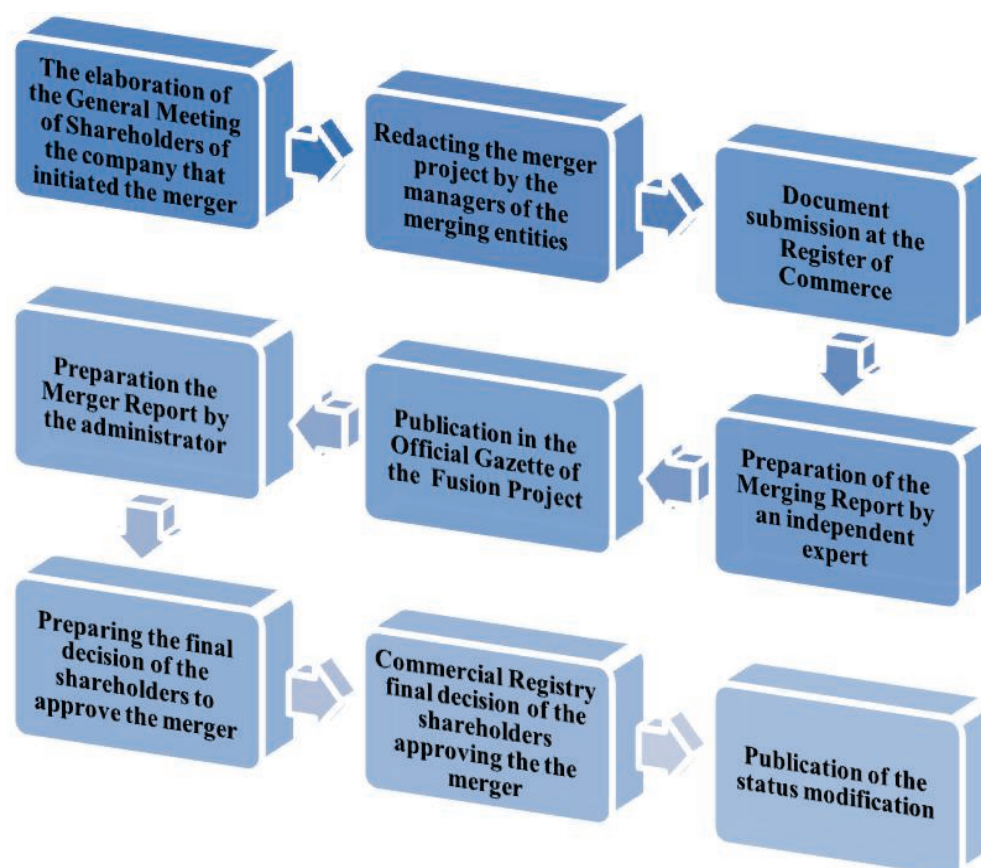


Figure 1. Merger documentation and proces in Romania

Source: projection made by author

In Romania, financial accounting has a significant role in determining the results of a merger.

We can identify three types of mergers which are classified depending on the type and size of the merging economic entities:

👉 Horizontal merger represents the merger of two economic entities which operate in the same industry. In our opinion, this type of merger represents a business consolidation which takes place between economic entities which operate on the same market, in most of the cases as competitors providing similar products or service. In Romania, horizontal mergers usually take place in industries with fewer firms, when competition tries to be higher and potential profits in market share are much higher for merging economic entities. In Romania this particular type of merger took place betwin E.ON

Gaz Romania and E.On Moldova Furnizare forming E.On Energie Romania, betwin UPC Romania and Cablevision, betwin Asiban and BT Asigurari forming Groupama Asigurări, betwin Christian Tour, Pegas Holidays, Europa Travel and Bibi Touring forming Christian Tour Group, and others.

 Vertical merger represents the merger of two economic entities at different steps of the production process or two economic entities offering different goods or services with the purpose of offering one specific product. In Romania vertical merger takes place when two or more economic entities which are performing their activities at different levels within an industry's supply chain merge operations. In Romania this particular type of merger took place betwin Smithfield and Caroli, betwin Bancpost and Eureka and others.

 Conglomerate merger represents the merger between two economic entities which are not related to one another. This particular type of merger takes place between firms that are involved in totally unrelated business activities.

3. ACCOUNTING INFORMATION FOR MERGES

An importan proble wich arises from the merger of two or more companies is the calculation, recognition and depreciation of goodwill.

IFRS 3 requires that goodwill acquired in a business combination to be measured after initial recognition at cost less accumulated impairment losses. Therefore, goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate an impairment event.

Record net contribution of merger		
Transactions with shareholders regarding capital	=	% Unpaid subscribed capitar Merger bonus
Receive merging assets		
% Lands Constructions Technical installations Stocs Clients Bank account Expenditures in advance	=	Transactions with shareholders regarding capital
Receive merging liabilities		
Transactions with shareholders regarding capital	=	% Suppliers Long term loans Provisions Incomes in advance
Recording the change in the capital		
Unpaid subscribed capitar	=	Subscibed capital

One of the main problems of mergers and acquisitions is represented by the evaluation of the entities which are merging.

The global value of the entities which are merging can be determined as followed:

$$\begin{aligned} \text{Global Value of Entity} &= \text{Owners equity} - \text{Fictitious assets} \pm \frac{\text{plusvalue}}{\text{minusvalue}} \\ &= \frac{\text{Revenue of a share}}{\text{Interest rate}} \times \text{No. of shares} \end{aligned}$$

$$\text{Global Value of Entity} = \text{Profitability value} = \frac{\frac{\Delta \text{Dividends}}{\text{Share}}}{\text{Capitalization rate}} \times \text{No. of shares}$$

$$\begin{aligned} \text{Global Value of Entity} &= \text{Goodwill value} \\ &= (\text{Owners equity} - \text{Fictitious assets}) + \text{Goodwill} \end{aligned}$$

$$\text{Global Value of Entity} = \sum_{i=1}^n \frac{\text{Cash flow input} - \text{Cash flow output}}{(1 + \text{update rate})^i} + \frac{\text{Residual value}}{(1 + \text{update rate})^n}$$

In case of mergers we can determine the switch rate of shares for both entities

$$\text{Swich rate} = \frac{\left[\frac{\text{Net contribution to merger}}{\text{No. of shares}} \text{ for the absorbed entity} \right]}{\left[\frac{\text{Net contribution to merger}}{\text{No. of shares}} \text{ for the absorbent entity} \right]}$$

IAS 22 required that the goodwill to be amortized systematically over its useful life and included a questionable assumption according to which the useful life of goodwill cannot exceed 20 years from the date of initial recognition

4. CONCLUSIONS

In our opinion, from the example of the large companies which have merged over the last decade in Romania, small and medium sized entities can benefit from the economic effects mergers and acquisitions offer.

In a small entity, the production structure is not outlined in most cases due to the lack of experience of their managers. Harmonization of the structure of production is one of the benefits in case of two small entities deciding to merge.

Another benefit for SMEs in case of mergers is the improvement of their technological lines and the development of new and improved products.

In many studies conducted on a large number of SMEs in Romania the diminishing capability to attract finance represents one of the main reasons for bankruptcy, an impediment witch SMEs can overcome easy trough merger.

In Romania, the majority of SMEs don't account innovation expenditures and they don't allocate any of their revenues on R&D. Trough merger, SMEs have the possibility of funding internal research therefore developing the R&D percentage among SMEs.

5. ACKNOWLEDGEMENTS

This work was possible with the financial support of the European program „Adaptation of the university curricula of master to the labor market in Romania in the projects financed from structural and cohesion funds, Contract POSDRU/86/1.2./S/64076, developed by West University of Timisoara, Faculty of Economics and Business Administration.

BIBLIOGRAPHY

1. Brewer P., Garrison R., Noreen E., *Introduction to managerial accounting* 2nd edition, McGraw-Hill 2005
2. Epstein B.J., IFRS 2007. *Interpretarea și aplicarea Standardelor Internaționale de Contabilitate și Raportare Financiară*, Editura BMT Publishing house, București, 2007;
3. Eurostat regional yearbook 2012, European Commission
4. KPMG, *International Survey of Corporate Responsibility Reporting*, Amsterdam, 2008;
5. N. Seitz, M. Ellison, *Capital Budgeting and Long-Term Financial Decisions*, Thomson, U.S., 2008
6. Ovidiu Nicolescu *White Paper on SMEs in Romania*, 10th edition, 2012
7. Rostea M., Dumitru C. G., *Contabilitate aprofundata* Ed. Universitara, Bucuresti 2004
8. Ross S., Jaffe J., B. Jordan, *Modern Financial Management*, McGraw-Hill, 2008
9. UNCTAD/ISAR, *Accounting for Financial Reporting for Environmental Costs and Liabilities*, Geneva, 2002;
10. *** www.eurostat.com