

NEW YORK UNIVERSITY
Stern School of Business

Accounting for Mergers, Acquisitions and Related Matters

Fall 2012

Prof. John Bildersee

jbilders@stern.nyu.edu

Tel. 212-998-0027

10-79 KMC

Class web site: Blackboard

Text: Advanced Accounting (**Custom Text** from 11th Edition – Hoyle, Schaefer & Douppnik)
Case materials: from annual reports and SEC filings and Trueblood Cases

Course Content: This course concentrates on mergers and acquisitions, the development of consolidated financial statements and related reorganization issues. It also covers accounting for international operations and selected financial instruments.

There are multiple intertwined elements to the course. One focus is on detailed statement development and problem solving to understand how the acquisition of a company affects financial statements and to understand how several operating units of a company can combine their individual financial statements into one consolidated statement for presentation. The second focus is on **several cases** that highlight selected issues affecting firms as they combine or deal with international measurement issues. (A tentative list is below.)

The course can be immediately helpful as past students have frequently volunteered that the course materials have helped them in job interviews.

Warning: The typical accounting course goes from topic to topic and the materials frequently seem distinct and independent of each other. This course is different as the topics are detailed frequently building on materials presented earlier in the semester. Difficulties faced early in the semester should be dealt with promptly. It is preferred, but not required, that you have taken Financial Reporting and Disclosure and/or Financial Statement Analysis before this course due to its detail.

Attendance: Attendance, completion of the cases and a review of the suggested exercises are important. You should **attend every class** to assure a good understanding of the materials.

Exams: There are two midterms and a final. All exams are open book and open notes. There are **no make-up exams**. If you cannot take an exam at the scheduled time you are expected to take it **early**. The exams will be given on the stated dates. The topics may change if the course falls behind schedule.

Quizzes: There will be several 15 minute quizzes. Quizzes are open book and open notes. Quizzes cannot be rescheduled. There are **no make-up quizzes**. Quizzes are scheduled for the first class following a given chapter and will focus on that chapter. The dates of the quizzes may change if our experience deviates from this schedule. The quizzes may be used to reduce the impact of your poorest exam.

Cases: Some cases consider real situations. Other cases have been developed to reflect real world issues as Trueblood Cases by Deloitte. Cases will NOT be part of course exams. Handing in a short (½ - 1 page) **TYPED** case writeup is **required**. One paragraph should describe the issues and considerations associated with the case. A second and/or a third paragraph should include your opinions about the issues. See the grade guide below.

Some selected companies and cases discussed during the semester:

Coca Cola – Equity Investing	Alcoa & Alcan Aluminum – Hostile Bid
Biovail-Valeant – Who acquired who?	Walmart-Massmart – Transnational partial acquisition
Food for Thought – Cost of Acquisition	Henderson Inc. – Intra-entity transactions
SBC & Bell South – Joint venture& merger	AOLTimeWarner – Impairment
Wachovia & Golden West – Rationale (Valuation) for a merger	Microsoft - Impairment
Morgan Stanley & Citigroup – Valuation of Smith Barney	Functional Currency determination
CenturyLink & Qwest – Merger (Negative Equity	Coca Cola – Reporting and Foreign Exchange
	Coca Cola, GE – Hedging policies

Suggested homework: These assignments offer a review of the primary topics in each chapter and may help you prepare for quizzes and exams. Do not spend too much time on any question. Instead, try to work the exercise in your own way and, if you are stuck, try to understand the answer that is on Blackboard and/or ask related questions in class. Homework suggestions are listed on the first date of the following chapter to assure some classroom discussion prior to doing the exercises and to aid in preparation for any quiz on that chapter.

Classroom performance: You are expected to be able to contribute to discussions about the exercises as well as other classroom discussions. Read the text and review the classroom exercises before class. Positive contributions include questions and well-intended responses irrespective of their accuracy and are worth extra credit.

Support materials: Visit Blackboard early and often. It has announcements, class notes, slide shows, spreadsheets, sample exams and miscellaneous items. Many of the relevant materials will be provided as handouts.

You are expected to follow the undergraduate code of conduct and the graduate honor code throughout the semester. We follow Stern's default policies for anything not covered here.

Tentative Grading:

Exam 1	25 points
Exam 2	25 points
Exam 3	25 points
Quizzes*	10 points
Classroom attendance	5 points
Cases - (5)	10 points
Classroom participation	Extra credit

*Quizzes will be worth 22 points instead of 10 points and replace 12 points of your poorest exam if the quiz average exceeds the score on your poorest exam. An alternate weighting will be used if an exam or if more than one quiz is missed.

Date	Topic	Reading	Classroom Discussion	Extra Exercises
1	Introduction			
2	Accounting for Minority Investments – Passive Investments, Equity Method	Ch 1	(1-6 thru 1-9) GE – Financial Statements	
3	Accounting for Minority Investments – Equity Method	Ch 1	(1-13, 1-16)[1-11, 1-14] Coca Cola – Equity Investing	
4	Consolidations on Acquisition – Acquisition Method – Balance Sheet	Ch 2	(2-9,2-10) Biovail-Valeant – Who acquired who?	(1-14, 1-19),
5	Consolidations –/ Valuation Issues & Cases	Case Materials	Chp 2 Cases (Pick 2 of 3) , Morgan Stanley, Wachovia, CenturyLink	(2-11,2-12,2-17,2-19))
6	Consolidations on Acquisition/ Consolidations – After Date of Acquisition (including Cost and Equity Methods)	Ch 2 ; Ch 3 (85-88)	(2-26,2-33)	CP
7	Consolidations – After Date of Acquisition – Income Statement	Ch 3	(3-4,3-7)	(2-16,,2-23), Quiz (Chp 2)
8	Consolidations – After Date of Acquisition - Impairments	Ch 3	(3-11 thru 3-13) AOLTimeWarner, Microsoft -Impairment	
9	Consolidations – After Date of Acquisition – VIEs, Cash Flows, IFRS	Ch 3, Ch 6 (247-256,266-270)	(3-16,3-22) (6-6, 6-7), Slide Show	(3-17,3-18,3-21)
10	Consolidations – After Date of Acquisition – Taxes/Review	Ch 7 (315 – 325)	(7-11, 7-12)	
11	Exam 1 (Chaps 1 -3)			
12	Consolidations – After Date of Acquisition – Partial Acquisitions/Review	Ch 4	(4-2,4-4,4-12 thru 4-14)	
13	Consolidations – After Date of Acquisition – Partial Acquisitions	Ch 4	(4-15 thru 4-19)	
14	Consolidations – After Date of Acquisition – Partial Acquisitions	Ch 4	(4-26), Chp 4 Case Walmart-Massmart – Transnational partial acquisition	
15	Consolidations – Intra-Entity Transactions – Land	Ch 5 (pp 199 – 200, 220- – 222)	(5-2, 5-5, 5-10 thru 15)	(4-22,4-27), Quiz (Chp 4) (5-7, 5-20ab)
16	Consolidations – Intra-Entity Transactions – Sales	Ch 5 (pp 199 - 220)	(5-23, 5-24)	(5-20c)
17	Consolidations – Special Topics (Alternate Restructurings – Spinoffs, Fresh Starts)		Chp 5 Case Henderson Inc – Intra-entity transactions.	
18	Foreign Currency – Introduction/Review	Ch 10	(10-4, 10-5)	
19	Exam 2 (Chps 4-6)			
20	Foreign Currency Conversions– (Current Method)	Ch 10	(10-6 thru 10-9)	
21	Foreign Currency Conversions – (Temporal Method)	Ch 10	(10-10-10-11)	

22	Foreign Currency – Consolidations	Ch 10	Chp 10 Case (10-35) Coca Cola – Foreign Exchange	CP
23	Foreign Currency – Transactions	Ch 9, Notes	(9-1, 9-4)	(10-15,10-28), Quiz (Chp 10)
24	Foreign Currency – Forwards, Hedges	Ch 9, Notes	(9-9, 9-11, 9-12) Coca Cola, GE Hedging policies	
25	Foreign Currency – Commitments, Forecasted Transactions	Ch 9, Notes	(9-31, 9-32)	(9-11 thru 9-13, 9-29)
26	Foreign Currency – Options, Swaps	Ch 9, Notes	(9-15 thru 9-17)	CP
27	Review			
28	Exam 3 (Chps 9 & 10)			

Homework related notes:

Several problems and questions include parts about three different accounting methods associated with investments (**prior to consolidation**) – the full or complete equity method, the incomplete or partial equity method and the cost method. The equity methods are typically identical for subsidiary income and dividend flows. The incomplete or partial equity method and the cost method are typically identical when the focus is on intra-entity transactions.

Additional comments:

Investment Accounting

Ownership	<20%	20-50%	>50%
Available for Sale*	X		
Trading*	X		
Equity Method		X	X- prior to consolidation
Cost Method			X- prior to consolidation

*Similar to accounting for foreign exchange

There are three **consolidation** methods. Pooling has been disallowed for new acquisitions since 2001 (and will be discussed for only a few minutes). The purchase method has been disallowed for new acquisitions since December 2008. The acquisition method is the **only acceptable method for new acquisitions today**. However, consolidated statements today include elements of all three methods with the no longer allowed methods slowly disappearing from the financial statements as the associated assets and liabilities age.

Summary of Consolidation Methods	Acceptable Acquisition Method	Not Acceptable after 2008 Purchase Method	Not Acceptable after 2001 Pooling
Values	Fair Value	Mix	Book Value
Type of financial consideration	Any	Any	Stock primarily
Amount of financial consideration	Fair value	Adjusted fair value	Book value
Valuation adjustments on 100% acquisition	100% adjustment	100% adjustment	None
Valuation adjustments on partial (less than 100%) acquisition	100% adjustment	Acquired portion only	None
Assets discovered	New intangibles For parent and	New intangibles	None
Possible Presence of Goodwill	Noncontrolling interest	Parent only	None
Consolidation of the subsidiary	Include only events after the acquisition	Include only events after the acquisition	Treated as having been together forever

Business in Foreign Currencies

Conversions to Dollars for Reporting			Transactions	
Conversions before Consolidation		Consolidation In dollars	Spot	Hedging Forward
Translation	Remeasurement		Market	Markets
Major Operations	Minor Operations		Risk	Neutralizes Risk
Net Assets	Net Monetary Assets			Commitments
Compre Income	Income			Forecasted Events

Cases must be typed. Written material will not be accepted or reviewed. The amount of credit will be guided by this summary. Be concise; assume you are summarizing the relevant issues for management. Use at least 1½ line spacing, normal page borders and size 11 font. Use one paragraph to summarize the underlying issues and one paragraph to describe your opinion.

Dimension	Poor (√-)	Average (√)	Excellent (√+)
Statement of the Issues and driving Forces	Partial recognition of the factors	Identification of the factors	Thorough identification of the factors and their impacts
Opinion Based on the Above	Failure to link factors to your opinion	Partial integration of the identified factors into your opinion	Full integration of the factors into your opinion