

NEW YORK UNIVERSITY
Stern School of Business

Mergers, Acquisitions, Other Restructurings and Related Matters

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10-79 KMC

Fall 2013

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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 selected reorganization issues such as spinoffs, splitoffs, IPOs and LBOs. It also covers accounting for international operations and selected financial instruments.

Some representative questions for discussion include:

- Can the acquirer and the acquired both show gains in a partial acquisition?
- What is the impact of a bidding war on shareholders, leverage and the future?
- Are internal profits relevant to the analysis of the entire firm?
- Can a subsidiary report a profit and the parent suffer a loss on its investment in the subsidiary (or vice versa)?
- Can the parent and the minority interest have different rates of return on the same investment (including possibly a loss for the parent and a gain for the noncontrolling interest)?
- Can a company avoid consolidation even if it owns a majority of a company?
- Can a company be required to consolidate even if it has a minority position in a company?
- How do acquisitions impact reported cash flows?
- When can a company report using a consolidated tax statement?
- How are IPOs and LBOs related?
- Can one company have a gain and another a loss (and a third have no gain or loss) from the same currency movements?

There are multiple intertwined elements to the course. One focus is on **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 measurement issues. (A tentative list follows.)

Some selected companies and cases that may be 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 (transfer pricing) |
| SBC & Bell South – Joint venture & merger | AOLTimeWarner/Microsoft – Impairment |
| Wachovia & Golden West – Rationale (Valuation) for a merger | Facebook/Trulia – IPO |
| Morgan Stanley & Citigroup – Valuation of Smith Barney | T-Mobile – IPO or Acquisition or Equity Carveout |
| CenturyLink & Qwest – Merger (Negative Equity) | Functional Currency – determination |
| | Coca Cola – Reporting and Foreign Exchange |
| | Coca Cola, GE – Hedging policies |

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 for cases listed in bold print**. 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.

Warning: The topics are detailed building on materials presented earlier in the semester. Difficulties faced early in the semester should be dealt with promptly.

Are you familiar with the following topics? These are covered with varying degrees of depth.

Topic	
Mergers	100% acquisition
	Partial acquisition
	Disappearance of acquired firm
	Acquired firm survives
	Purchase method
	Pooling method
	Acquisition method
	Fair values (assets & firm)
	Valuation of intangibles
	Goodwill
	In process R & D
	Reporting units (not segments)
	Impairment testing
IFRS' differences	
Consolidations	Consolidation process
	Investment in subsidiary
	Elimination (Consolidation) entries
	Noncontrolling interest
After acquisition	Income statement
	Equity method
	Cost method
	Cash Flow
	Selected Tax Issues

Topic	
Intra-Entity events	Intra-Entity sales
	Intra-Entity asset transfers
	Impact on profits
Restructurings	Pushdown accounting
	Leveraged buyouts
	IPOs
	Spinoffs & Splitoffs
	Fresh starts
	Segment reporting
Foreign currency reporting	Exchange rates
	Comprehensive income
	Conversions -translation
	Conversions-remeasurement
	Consolidation of foreign operations
	Comprehensive income
Foreign currency events	Spot activity
	Hedging
	Fair Value hedges
	Cash flow hedges
	Firm commitments
	Forecasted events
	Hedge effectiveness
	Options

(You should be familiar with accounting for available for sale and trading securities when we speak of foreign operations. Materials will be on Blackboard.)

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 three exams. 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.

Suggested homework: These assignments offer a review of the primary topics in each chapter and may help you prepare for 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.

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, class videos and miscellaneous items. Many of the relevant materials will be provided as handouts.

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

Tentative Grading:

Exam 1*	28 points
Exam 2*	28 points
Exam 3*	28 points
Classroom attendance	4 points
Cases - (6)	12 points
Classroom participation	Extra credit

*The exam with the highest average will be worth 43 points and the exam with the lowest average will be worth 13 points. This adjustment occurs **only** if all exams are taken in a timely manner.

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.

Preliminary Schedule of Topics	Readings	Classroom Discussion	Extra Exercises
Introduction		GE – Financial Statements	
Consolidations on Acquisition – Acquisition Method – Balance Sheet	Ch 2	(2-9,2-10) Biovail-Valeant – Who acquired who?	(1-14, 1-19),
Consolidations on Acquisition	Ch 2	(2-26,2-33)	
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))
Consolidations – After Date of Acquisition – Income Statement (including Cost and Equity Methods)	Ch 3	(3-4,3-7)	(2-16,,2-23)
Consolidations – After Date of Acquisition – Impairments, Cash Flows	Ch 3, Ch 6 (266-270)	(3-11 thru 3-13), (6-6, 6-7), AOLTimeWarner, Microsoft -Impairment	
Consolidations – After Date of Acquisition – Partial Acquisitions			(3-17,3-18,3-21)
Consolidations – After Date of Acquisition – Partial Acquisitions /Review	Ch 4	(4-2,4-4,4-12 thru 4-14)	
Exam 1 (Chaps 2 -3,6)			
Consolidations – After Date of Acquisition – Partial Acquisitions	Ch 4	(4-15 thru 4-19), Slides	
Consolidations – After Date of Acquisition – Partial Acquisitions (IFRS)	Ch 4 , Ch 6 (247-256)	(4-26), Chp 4 Case Walmart-Massmart –	Transnational partial acquisition

Consolidations – Intra-Entity Transactions – Land	Ch 5 (pp 199 – 200, 220- – 222)	(5-2, 5-5, 5-10 thru 15)	(4-22,4-27), (5-7, 5-20ab)
Consolidations – Intra-Entity Transactions – Sales	Ch 5 (pp 199 - 220)	(5-23, 5-24)	(5-20c)
Consolidations – VIEs, Taxes	Ch 7 (315 – 325)	(7-11, 7-12),	
Consolidations – IPOs, LBOs	Notes	Case T-Mobile, Facebook	IPO or Acquisition
Consolidations – Special Topics (Alternate Restructurings – Spinoffs, Fresh Starts)		Chp 5 Case Henderson Inc –.	Intra-entity transactions
Foreign Currency – Introduction	Ch 10, Notes	(10-4, 10-5)	
Foreign Currency Conversions– (Current Method)/ Review	Ch 10, Notes	(10-6 thru 10-9)	
Exam 2 (Chps 4-5,7)			
Foreign Currency Conversions – (Temporal Method)	Ch 10, Notes	(10-10-10-11)	
Foreign Currency – Transactions	Ch 10, Notes	Chp 10, (10-35) Case Coca Cola	Foreign Exchange
Foreign Currency – Forwards, Hedges	Ch 9, Notes	(9-1, 9-4) GE Hedging policies	(10-15,10-28)
Foreign Currency – Commitments, Forecasted Transactions	Ch 9, Notes	(9-9, 9-11, 9-12, 9-31, 9-32)	(9-11 thru 9-13, 9-29)
Review			
Exam 3 (Chps 9 & 10)			

There were three acceptable consolidation methods. Pooling has been disallowed for new acquisitions since 2001. 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	New intangibles	None
And Goodwill	for parent and	For parent only	None
	Noncontrolling interest		
Consolidation of the subsidiary	Include only events after the acquisition	Include only events after the acquisition	Treated as having been together forever

Additional comments:

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

*Similar to accounting for foreign exchange

Business in Foreign Currencies

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