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Fusion av helägt aktiebolag

En utvärdering av BFNAR 1999:1

Filosofie magisteruppsats inom redovisning

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Jönköping 2005-06-09



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Merger of fully owned subsidiary

An evaluation of BFNAR 1999:1

Master thesis within Accounting

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Magisteruppsats inom Företagsekonomi

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Sammanfattning

Bakgrund och problem

1999 utfärdade BFN (bokföringsnämnden) en anvisning rörande redovisning av helägt dotterbolag, BFNAR 1999:1. Debatten kring detta område har pågått sedan mitten på femtiotalet, då olika uppfattningar om hur fusioner ska redovisas har varit ständigt närvarande. Eftersom olika uppfattningar finns, är inte alla nöjda med BFN's lösning som en generell anvisning för redovisning av fusion av helägt dotterbolag. Nu (2005) har anvisningen blivit praktiserad under snart 5 år. Beträktande de potentiella problem som är relaterade till BFN's anvisning, är det av intresse att utvärdera anvisningen i dess praktiska användning.

Syfte

Syftet med denna uppsats är att utvärdera och därmed finna problem med BFNAR 1999:1 i dess praktiska användning.

Method

En enkät sändes till 51 revisorer arbetandes på olika kontor inom fyra stora revisionsbyråer. Enkäten var kvantitativ med utrymme för kommentarer. Frågorna i enkäten, som bygger på eventuella problem vilka är påvisade genom en fördjupningsstudie, söker nå revisorernas åsikter på området, samt hur anvisningen följs.

Slutsats

Enligt åsikterna hos dem som praktiskt använder BFNAR 1999:1, tyder det på att anvisningen följer det rättsväsende som det påverkas av.

Generellt så följs BFNAR 1999:1 av dess användare, och det ser ut som att anvisningen redan har skapat praxis i fråga om redovisning av fusioner i helägda dotterbolag. Denna uppsats tyder på att avvikelser från anvisningen enbart uppstår på grund av praktiska skäl i de fall där den rättvisande bilden av redovisningen inte kommer att påverkas av ett sådant förfarande.

En viktig iakttagelse är att en tredjedel av dem som praktiskt använder BFNAR 1999:1, i motsats till BFN, anser att årsredovisning/bokslut bör upprättas i det upplösta företaget (det fusionerade dotterbolaget) i syfte att förse intressenter med nödvändig information. Denna fråga är viktig då Svensk redovisningslag bygger på att redovisningen skall förse intressenter med viktig räkenskapsinformation. Därför är uppseendeväckande att en tredjedel anser att BFN inte klarar av att täcka informationsbehovet på denna punkt.

Mer än hälften av användarna menar att BFN's sätt att hantera obeskattade reserver är missvisande och att denna lösning omotiverat minskar det utdelningsbara egna kapitalet i företaget. Detta resultat tyder på att BFNAR 1999:1 inte har stöd från dess användare på denna punkt.

Master Thesis within business Administration

Title:	Merger of fully owned subsidiary an evaluation of BFNAR 1999:1
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Abstract

Background and problem

In 1999 BFN (Swedish Accounting Standards Board's) issued a recommendation concerning accounting applied to mergers of fully owned subsidiaries, BFNAR 1999:1. The debate concerning this issue has been in progress since the mid fifties, since different opinions regarding a number of questions have been present. Due to the fact that opinions have varied, not everybody is satisfied with BFN's solution as a general application of accounting applied to mergers. Now (2005) the recommendation has existed, and accordingly, been practiced for 5 years. Regarding all the possible problems related to BFN's solution, it is of interest to evaluate BFNAR 1999:1 in its practical application.

Purpose

The purpose of this study is to detect problems concerning BFNAR 1999:1 in its practical application.

Method

A survey was sent to 51 auditors working in four different large accounting firms. The survey was quantitative with space for additional comments. The questions was based on possible problems detected in a deepening study, and concerned the auditors opinions, and how the BFNAR 1999:1 is observed regarding these problems.

Conclusion

According to the opinion of those who practically use BFNAR 1999:1, it seems that the recommendation observes the legal system that surrounds it. In general, the recommendation is consistently observed by its users, and it seems that the recommendation already has become general practice regarding accounting applied to mergers of fully owned subsidiaries. Deviations from the recommendation only emerge for practical reasons in cases when true and fair picture of the accounting is not evidently affected by such a procedure.

An important conclusion is that one third of the users, in opposite to BFN, argue that annual report/accounts should be set up in the dissolving company in order to provide interested parties with comprehensive accounting information. This question is important, since accounting law is based on the philosophy that the accounting should provide all necessary accounting information needed to interested parties. Therefore it is alarming when one third of the respondents believe that BFN does not cover the information need concerning this item.

More than half of the users reason that BFN's way of treating untaxed reserves is misleading and affects the equity capital of the parent company negatively. This result indicates that BFNAR 1999:1 is not supported by its users on this item.

Dictionary

14:22 merger	Merger of a fully owned subsidiary, where the subsidiary is absorbed into the parent company and dissolved through the merger.
ABL	The Swedish company act (Aktiebolagslagen)
BFN	Swedish Accounting Standards Board (Bokföringsnämnden)
BNFAR 1999:1	Swedish Accounting Standards Board's recommendation 1999:1, concerning accounting applied to mergers of fully owned subsidiaries (Bokföringsnämndens allmänna råd 1999:1)
Referral comment	Statement on a matter submitted to a body for consideration (in this thesis the referral case BFN's proposal for a recommendation concerning accounting applied to 14:22 mergers).
RR	Swedish Financial Accounting Standards Council (Redovisningsrådet).
ÅRL	The Annual accounts act (Årsredovisningslagen).

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1 Introduction

The introducing chapter will describe the purpose of this study and the underlying problems related to the purpose.

1.1 Background

The definition of the word merger varies depending on who is discussing the subject. In general speaking, a merger takes place when one company takes control over another through majority of shares or by other means that implies that the overtaking company exercises influence over another company. From a juridical point of view, a company takes over the assets and liabilities of another company who, at the time of the merger, is dissolved without liquidation (Smiciklas, 1993). Note the difference between acquiring shares in another company and dissolving another company by taking over its assets and liabilities. This study will only refer to mergers from a juridical point of view.

In Swedish legislation, ABL¹ chap 14, there exists two forms of mergers, absorption and combination. A merger through absorption implies that the one or more companies enter another company. A combination implies that two or more companies enter a recently formed company. Merger of a *fully owned subsidiary* is a variant of absorption, and implies that a parent company owns all the shares in a subsidiary which is merged into the parent company. This type of merger is regulated in ABL 14:22 and is in general called: *14:22 merger*. This study will only treat mergers of fully owned subsidiaries.

Company law and fiscal legislation related to mergers have existed in Sweden since 1950 and 1944 respectively. However, rules or recommendations concerning how accounting applied to mergers should be handled did not come into force before 2000 when BFNAR 1999:1², who treats mergers of fully own subsidiaries was issued by BFN³.

Already in 1955 Rickard Elinder questioned why recommendations within the area discussed did not exist. The discussion was intensified in the nineties when new fiscal legislation made mergers more beneficial, and the number of mergers increased considerable. According to Johansson & Knutsson (1999), the reason why recommendations regarding accounting applied to mergers have not been developed is that they have not been sufficiently common until recent years.

Since recommendations have not existed, the general practice within accounting applied to mergers was not uniform. That is, it existed several different methods to utilize when realizing the accounting procedure of a merger. Consequently, a debate has for a long time been in progress concerning how mergers should be accounted in order to achieve the best outcome for all interested parties. Finally, in 1999 BFN published a recommendation with the purpose of creating a general practice regarding accounting applied to mergers (14:22 mergers).

In connection to the coming into force of BFNAR 1999:1, many individuals and institutions with competence within the area offered their opinions concerning the recommendation, and the attitudes were both positive and critical. The recommendation was also evaluated in a number of master theses. In these studies, conclusions have been generally positive.

Now (2005) the recommendation has been in practice for over four years. Evaluations regarding how well the recommendation has served in practice have not been numerous. Thereby, the author considers it interesting to evaluate how BNFAR 1999:1 has been supported in reality.

¹ The Swedish company act (Aktiebolagslagen)

² Swedish Accounting Standards Board's rec. 1999:1 (Bokföringsnämndens allmänna råd 1999:1)

³ Swedish Accounting Standards Board (Bokföringsnämnden)

1.2 Problem discussion

BFN stated in their proposal to their recommendation (1998) that the accounting practice that is applied to mergers is not uniform, which deteriorates the possibility to compare different companies results and financial situations. In order to synchronize the accounting practice between companies regarding 14:22 mergers, BFN designed the recommendation with the purpose of,

- Being in accordance to Swedish accounting law BFL and ÅRL⁴
- Satisfy external interested parties need for accounting information

BFNAR 1999:1 is influenced by a number of juridical institutions and rules. Swedish accounting legislation is a basic law that is complemented by a number of principles, recommendations and practices, and is to a great extent dependent on international directions. BFNAR 1999:1 must, thus, not only be compatible to Swedish accounting legislation, but also to related principles and recommendations.

Hence, in order to become a general accepted accounting principle BFNAR 1999:1 must be in accordance with legislation, principles and recommendations. The figure below describes how BFNAR 1999:1 is affected by the legal system.

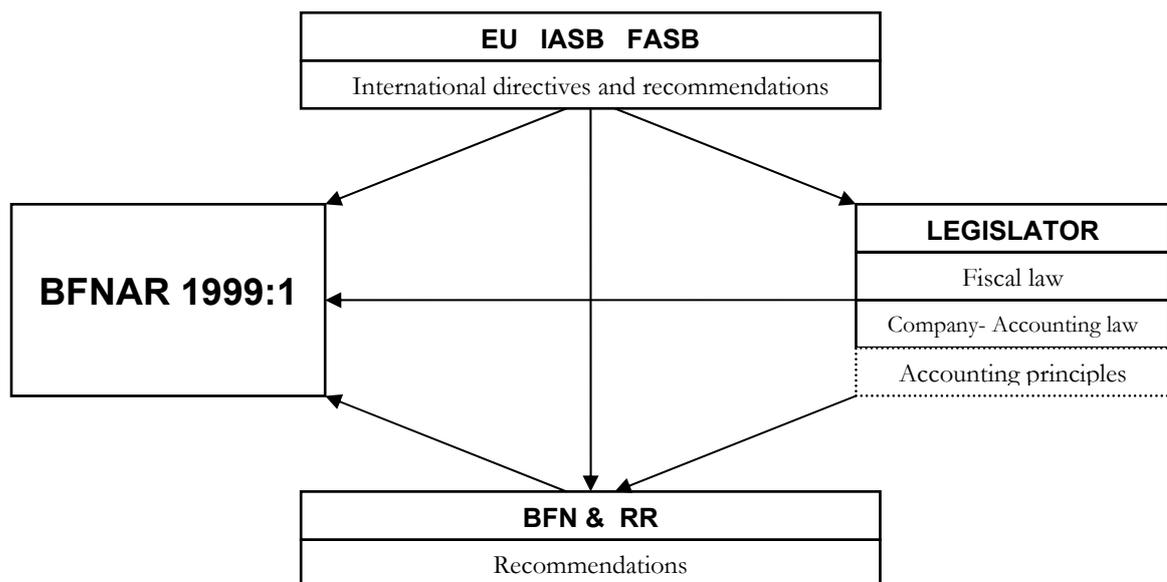


Figure 1 The influence from the legal system on BFNAR 1999:1

⁴ The Annual accounts act (Årsredovisningslagen) & The Accounting law (Bokföringslagen)

In Sweden, *international directives and recommendations* are of great importance. Since the entrance in the European Union, Sweden has pledged to adapt Swedish legislation by implementing European directives (Sandén, 1996). European IASB's recommendations regarding accounting standards are obligatory for all listed companies within EU since the first of January 2005. FASB, the American equivalent to IASB has an important influence on how IASB develop their recommendations.

Company law treats, in ABL, different forms of mergers, the juridical procedure of mergers and rules regarded protection of creditors. The accounting rules in BFL and ÅRL also affects mergers and are, as mentioned above, the foundation for the development of BFNAR 1999:1.

A number of *accounting principles* can be found in ÅRL. Other principles are not stated in law but have been developed to accepted accounting practices. Some principles are compulsory while others can be violated provided that some criteria are complied.

In Sweden the connection between accounting and taxation is strong (Svensson & Edenhedhammar, 1996). This implies that accounting applied to mergers is connected to fiscal legislation as well. In the debate concerning accounting applied to mergers, several fiscal questions have been brought up for discussion. *Fiscal legislation* treats mergers in FUL 1998:1603⁵ and considers the merger as a transaction where a company enters another company's fiscal situation. The main rule is that mergers shall not be taxed (Heinestam, 2004).

In Sweden there exist two active standard setters regarding accounting questions, BFN and RR⁶. They publish *recommendations* that are formulated in accordance with international directions, Swedish legislation and accounting principles and play an important role in creating generally accepted accounting principles. Recommendations are not laws, but they become binding with reference to generally accepted accounting practices (Svensson & Edenhedhammar, 1996).

BFN's solution regarding how to treat accounting applied to merges are both supported and criticized in literature, articles and referral comments. The aim of this study is to find out if there exists any factors between BFNAR 1999:1 and the legal system that surrounds the recommendation that can cause problems of any kind. The figure below describes the problem discussion.

⁵ The law concerning taxation related to mergers, fissions and sales of business

⁶ Swedish Financial Accounting Standards Council

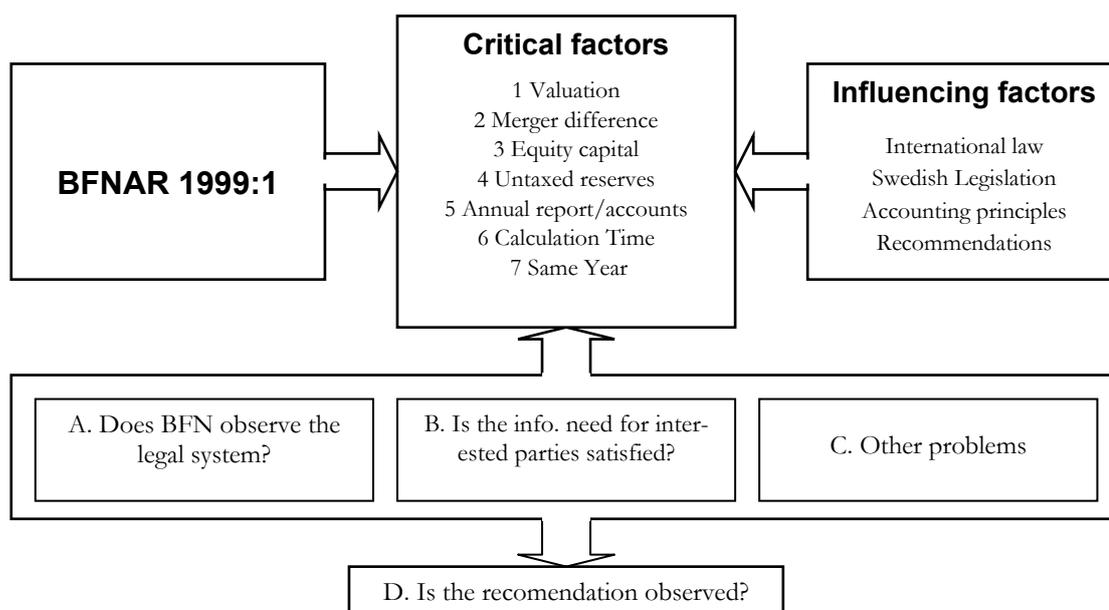


Figure 2 Problems related to BFNAR 1999:1, Critical and influencing factors

A preliminary study based on BFNAR 1999:1 (4), previous literature (5.1) and referral comments⁷ (5.2) have been made in order to detect critical factors that:

- Cause problems by creating disharmony between BFNAR 1999:1 and influencing factors.
- Preserve problems by applying the recommendation to ineffective legislation and recommendations

The critical factors that were found will be described briefly below, and discussed further in the frame of reference and previous studies.

- 1. Valuation: How to value the assets and liabilities of the subsidiary before the transfer.
- 2. Merger difference: Where to post the merger difference in the parent company.
- 3. Equity capital: How to distribute the merger difference in restricted and non-restricted equity.
- 4. Untaxed reserves: How to treat untaxed reserves in relation to the merger.
- 5. Annual report/accounts: If the subsidiary (the dissolving company) should set up annual report/accounts the year of the merger.
- 6. Calculation Time: What time to use when calculating the merger difference.
- 7. Same Year: Where to post the business transactions of the subsidiary if the acquisition of the subsidiary and the merger takes place the same year.

The problems that the critical factors can generate are described as: A,B,C and D in figure 2. Other problems (D) refers to problems all problems that may arise that are not connected to A B or D. For example, if companies or interested parties may be economically affected by exercising BFNAR 1999:1.

⁷ Statement on a matter submitted to a body for consideration (in this case BFN's proposal for a recommendation concerning accounting applied to 14:22 mergers).

1.3 Problem statement

Based on the discussion above, the following problem statement has been developed:

Regarding 14:22 mergers, will the following factors...

- 1. Valuation
- 2. Merger difference
- 3. Equity capital
- 4. Untaxed reserves
- 5. Annual report/accounts
- 6. Calculation time
- 7. Same Year

...lead to problems concerning...

- A. If the recommendation observes the legal system
- B. If the recommendation provides the information needed to interested parties
- C. Other problems that may affect companies or other parties
- D. If the recommendation is observed

1.4 Purpose

The purpose of this study is to detect problems concerning BFNAR 1999:1 in its practical application regarding...

- A. If the recommendation observes the legal system
- B. If the recommendation provides the information needed to interested parties
- C. Other problems that may affect companies or other parties
- D. If the recommendation is observed

...in order to...

- Support companies and auditors regarding how to conduct oneself towards the recommendation
- Provide BFN and other institutions with a description of the practical application of the recommendation.

1.5 Delimitations

BFNAR 1999:1 treats principally questions related to company law and accounting. Also the majority of the problems related to the recommendation concern principally company- and accounting law. Additionally, tax related problems, may arise indirectly due to the recommendation. However, the author considers that the study would result overly extensive if both accounting- and tax related problems would be treated. The author will focus on problems related to accounting and company law

Since the recommendation BFNAR 1999:1 only treats 14:22 mergers, the focus in this study will be directed towards above mentioned merger form in question.

2 Methodology

In this chapter, the scientific approach and the mode of procedure is described. The chapter will illustrate how the conclusion of the study is reached and in which also weaknesses are included.

2.1 Scientific considerations

Within the positivism, interpretations of reality is based on secured data, which is carefully examined from critical point of view (Thurén, 1991). In the positivistic science, the theory determines what problems need to be solved. These problems are formulated as hypotheses, and the research objective is to observe possible causal connections between the variables that are included in the hypothesis (Bryman, 1997). The positivism is based on objectivity. The researcher must be objective towards the study and not let personal qualities and experiences affect the result of the research. The research in this study has the possibility to take a positivistic approach and, thus, achieve a high degree of objectivity. The main research is primarily based on a quantitative survey and the procedure of the analysis if the survey is predetermined according statistical rules. Thus, the results from the research will, according to the authors' opinion, be objective. However in order to make a conclusion based on the results, the results must be interpreted. Consequently, through the interpretation, the research will loose objectivity.

2.1.1 Deduction, induction, abduction

The relation between theory and empirical reality is one of the central problems within scientific research. There exist three different scientific approaches within this area, *deduction*, *induction* and *abduction* (Patel & Davidsson, 2003).

The *deductive* approach implies that the researcher tests if theories and models are applicable to reality. Hence, the research starts out from theory and ends up in conclusions about empirical reality (Patel & Davidsson, 2003). The theory that is tested can be rejected, strengthened or developed (Artsberg, 2003). The *inductive* approach implies that the researcher examines the reality, and from the conclusions drawn, theories and models are developed. Hence, the research starts out from reality and ends up in new theories and models (Patel & Davidsson, 2003). The *abductive* approach is a combination between deduction and induction (Patel & Davidsson 2003). First the researcher states a theory based on empirical research. Subsequently, the theory is deductively tested on new cases, and may even develop the theory to be applicable on more cases. This is a *deductive* research. Previous studies, will be tested on reality. However, it is important to mention that the theories or hypotheses in the previous studies do not claim to be "law of nature". These theories are based opinions from different authors and institutions, which purpose is to argue for the best solutions for a number of problems. Thus, the result from the research will not attempt to "explain" some kind of universal reality. Instead, it will try to discover if the factors that are claimed to cause problems according to previous studies, also will cause problems in reality.

2.2 Mode of procedure

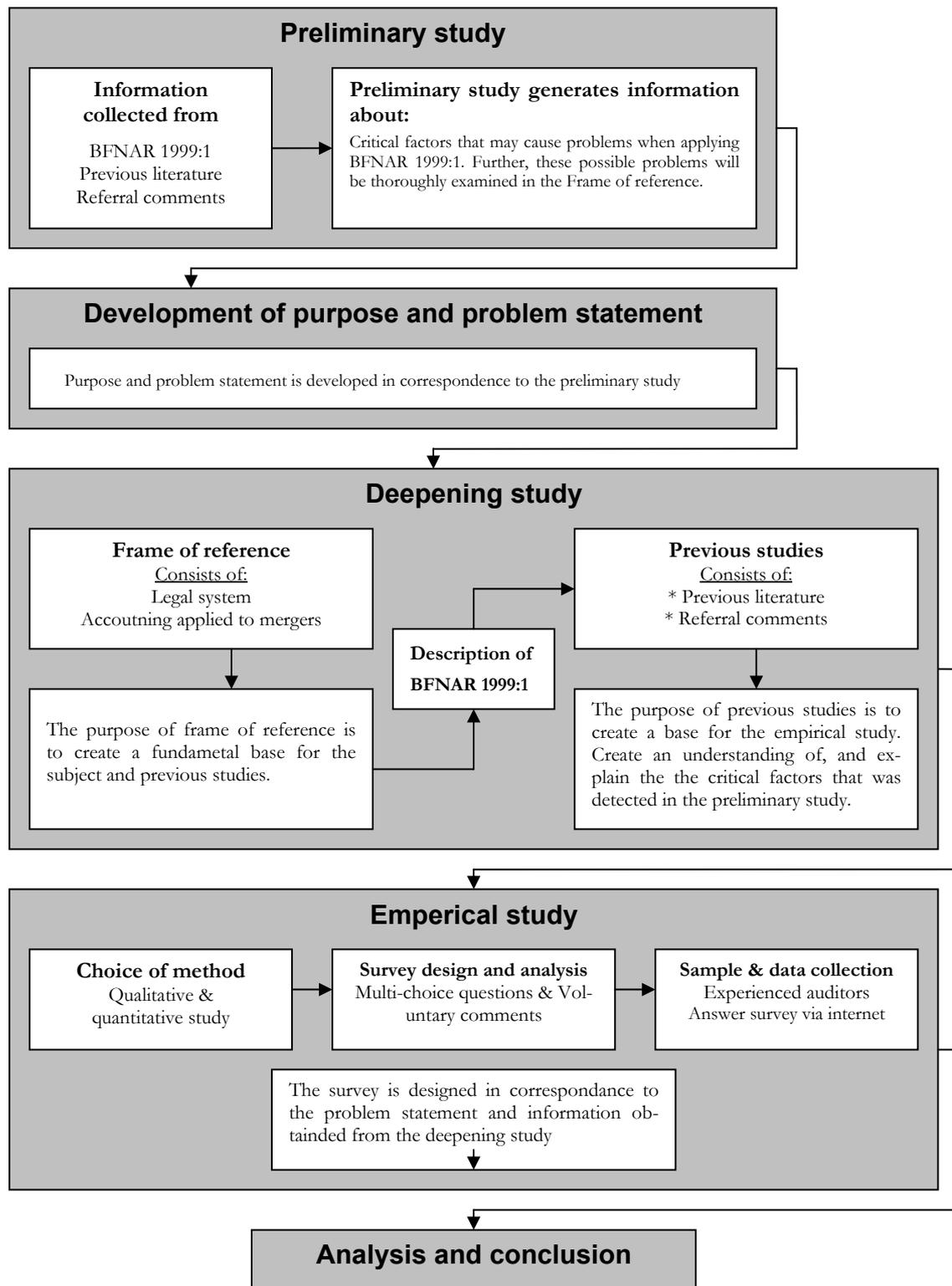


Figure 3 Mode of procedure

2.2.1 Deepening study

The purpose of the deepening study is to gain sufficient information in order to be able to realize the empirical study. The deepening study is divided in *frame of reference* and *previous studies*

2.2.1.1 Frame of reference

The Frame of reference consists of two parts. The first part treats *juridical factors* that influence BFNAR 1999:1, like directives, laws and recommendations. The second part treats, from different perspectives, the *technical procedure* of accounting 14:22 mergers. The purpose of the frame of reference is to serve as a foundation for the previous studies. That is,

- Create a general understanding about mergers and legislation and other factors related to mergers in order make the discussion in previous studies comprehensible.
- Facilitate the understanding of the different opinions and argumentations in the previous studies. That is, opinions are often colored by the general conception of justice, and the juridical questions are, as mentioned above, part of the frame of reference.

The frame of reference is based on literature that provides general descriptions of international directives and recommendations, legislation, recommendations and legislation in relation to groups and mergers. Additionally, literature that practically describes the technical procedure of accounting applied to mergers has been used.

2.2.1.2 BFNAR 1999:1

This chapter will describe the items in BFNAR 1999:1 that are related to the problems that are detected in the preliminary study. This information is the foundation for the reason why the problems in the *chapter previous* studies are discussed.

2.2.1.3 Previous Studies

The section previous studies consists of two parts. The first part is a summary of the *literature* that has debated the subject of accounting applied to mergers since the fifties. The second part is a summary of the *referral comments* to the proposal of the BFNAR 1999:1. The purpose of both parts in previous studies is,

- Create a foundation for the empirical study. Explain the possible factors that can cause problems when accounting mergers in accordance with BFNAR 1999:1

The *literature* within the studied subject is extensive. Many authors have debated the problem regarding how to treat accounting applied to merger, and even 14:22 mergers specifically. Information has been found in books, articles and especially the journal *Balans*, that is a creator of opinion within questions regarding accounting. The supply of information has been extensive and the possibility to sift and specifically find information relevant for the purpose of the study has not been difficult. Additional information from referral comments to the proposals of the BFNAR 1999:1 have been important and useful since it to some degree treated problems that is not treated in the literature of accounting applied to mergers. All 47 referral comments were directly ordered from BFN. Two master thesis that treat BFNAR 1999:1 have been used during the study (Larsson & Wall, 2000; Lindvall, Montal & Thunberg, 2000). These theses have been facilitating the process of learning and finding relevant literature within the subject.

2.2.2 The empirical study

The purpose of the empirical study is to obtain the information necessary in order to be able to solve the problem statement

2.2.2.1 Choice of method

Quantitative and *qualitative* methods are two different approaches regarding how to generate, arrange and analyze the information and data collected in a research (Patel & Davidson, 2003). The *qualitative* method is viewed as soft data, flexible, subjective and speculative. The approach seeks deeper understanding of social phenomenon than possibly could be obtained from purely quantitative data (Patel & Davidson, 1997; Silverman, 1997). It seeks answers to questions like: Where? How? What are the differences? What are the relations (Patel & Davidson, 2003).

The *quantitative* method is based on fixed data. It is an objective approach that is based on finding casual connections between variables. The result of the research should be representative and reflect the total population. Through this type of method, the researcher do not integrate with the respondents. Instead he has the role of an observer. (Bryman, 1997). It seeks answers to questions like: What is this? Which are the underlying patterns? (Patel & Davidson, 1997).

This study is primarily quantitative. The analysis of the empirical results is descriptive, and is divided into two steps.

Step 1		Step 2
<p>The purpose with the quantitative study is to discover if BFNAR 1999:1,</p> <ul style="list-style-type: none"> • How many auditors that find BFNAR 1999:1 problematic within certain areas. • How many auditors that believe that BFNAR 1999:1 is observed certain items <p>The problems related to these items are identified in the theory (previous studies) and used in the empirical study. Basically, the answers in the quantitative part of the survey can be e.g. “agree/ do not agree” or “Yes/No”</p>	<p>→</p>	<p>The respondents have the possibility to comment their answers in the survey. Here they can develop their opinions concerning the problems, how common they are, how serious they are, what effect they causes etc.</p> <p>The results from the survey will together with the comments, will be interpreted in order to answer if BFNAR 1999:1:</p> <ul style="list-style-type: none"> • Causes problems within certain areas, what kind of problems that are present and how serious it is • Is violated within certain items, why it is violated and how serious it is.

Table 1 Quantitative study

2.2.2.2 Survey design and analysis

The survey consists of two multi-choice questions. There are two types of questions which are described in the figure below. The respondent also has the possibility to comment his answer to each question.

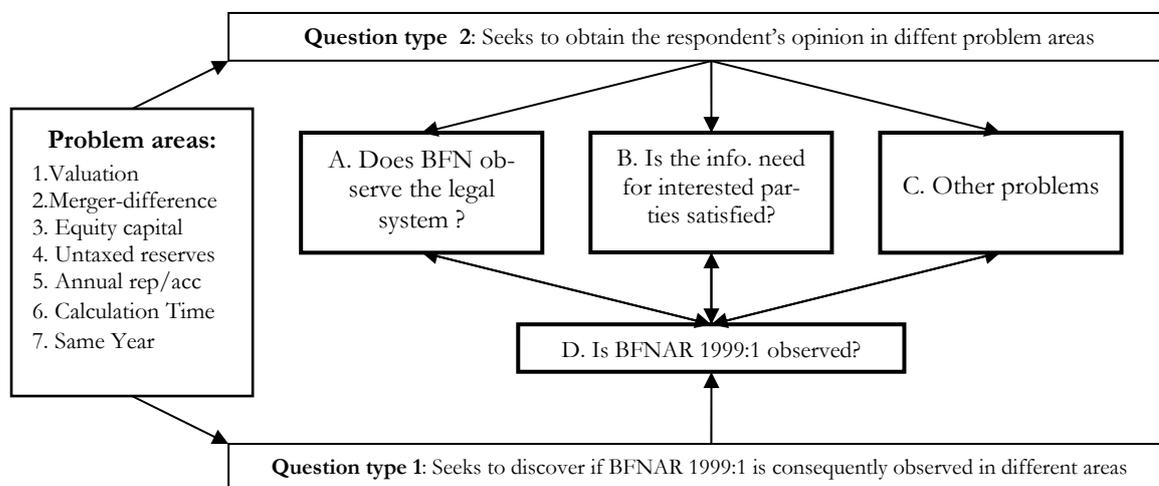


Figure 4 Survey questions to the problem statement

Question type 1: This question type seeks to discover if BFNAR 1999:1 is consistently observed within the problem areas that are brought up in the survey. The respondent can basically answer Yes or No. If one respondent answers No on one item, this signifies that the recommendation is not consistently observed in the specific area. This does, to some degree, imply problems. In addition, the answers will reveal the minimum number of auditors that consistently observe the recommendation. This will provide some degree of understanding of the quality of the recommendation, even though conclusions can not be drawn from this data.

Question type 1, comments: the respondent have the possibility to comment why a specific item in BFNAR 1999:1 is not observed, and thus the underlying reason for the problem, i.e. if it is related to legislation questions or interested parties.

Question type 2: This question type is designed as a statement. These statements are negative to BFNAR 1999:1 and based on information from the chapter previous studies. The respondent can basically answer Agree or Do not Agree. If the respondent agree with a statement, he is critical to BFNAR 1999:1 in this issue. Consequently, this issue causes some degree of problem. If many respondents are critical to BFNAR 1999:1 within a certain issue, it can be assumed that they prefer another solution than BFN. Consequently, based on the great knowledge auditors possess regarding accounting issues, it will be relevant to discuss how and if BFN should consider revising items in the recommendation to which more than half of the respondents are critical.

Question type 2, comments: The respondent have the possibility to comment why he agree with an assumption and the affects the problem may cause.

If a respondent is critical towards an item, he can choose to consider this a significant problem, or he can choose to consider this not to be a significant problem. If any respondent considers any of BFN's solutions to imply significant problems, this will be regarded

seriously in the analysis. If a number of respondents are critical towards an item but do not consider this to be a significant problem, this will not be regarded as a significant observation in the analysis. However, if a clear majority of respondents are of the same opinion concerning such a question, this will be remarkable since it will indicate that BFN has a different conception of the accounting, regarding the specific issue, than the people that practice the recommendations that BFN stipulates.

2.2.2.3 Sample and data collection

The sample consists of auditors with experience within 14:22 mergers. Almost 250 offices in 4 large accounting firms were contacted through e-mail. The choice of using only the offices of four large accounting firms was based on the easiness of obtaining the e-mail addresses of these offices. The e-mail addresses are provided on the homepage of each accounting firm. The offices within the four companies were chosen randomly. The offices were asked to send information about auditors with more than five years of experience of mergers. In total, the offices returned correspondence with the names and addresses of 51 auditors. All 51 auditors were contacted, 33 answered the survey and 2 were excluded since they did not meet the requirements, see below.

The main goal was to reach auditors with experience both before and after the coming into force of BFNAR 1999:1. However, auditors with less experience are considered qualified for participating in the study. The minimal criterion for participation is experience of at least one merger after the coming into force of the recommendation. The reason for that is that the purpose of this study is to evaluate BFNAR 1999:1 in practice. Auditors that do not have any practical experience of using the recommendation are therefore excluded.

The quantitative study does not address any special type of company. The only criterion is that the companies must be applicable to BFNAR 1999:1. Thus, company size or type of business is not regarded. However, the survey invites the respondents are invited to comment possible differences related to company size if they feel that it is of importance.

The survey is filled in on a website where the respondents answer the question by clicking on the alternatives, and write down their comments if they have anything to add. The auditors obtained the web address to the survey directly in the invitation they received by mail. Each address is individual, that is, it contains a code that can be used only once. This procedure was done in order to make sure that only the auditors contacted answered the survey. After one week, 22 auditors had answered the survey. The auditors that had not answered the survey received a reminder and in three days 10 more surveys were answered.

2.2.3 Criticism of method

In order to reach a high quality results, it is important to constantly evaluate the mode of procedure and method used along with the development of the research.

2.2.3.1 Reliability

Reliability refers to the reliability of the conclusions and results of a research. High reliability is reached if various studies use the same method and reach the same results, and that the random factor is mainly eliminated (Thurén, 1991). The primarily research in this study is quantitative, and is based on a survey. Thus, the reliability in the quantitative research must be regarded as relatively high since the survey does not change from respondent to respondent. The opinions of the respondents may change within a period of time and should then affect the reliability, but only if the opinions change due to increased experience.

The qualitative research has high reliability from the point of view that the qualitative answers in the survey are based on experience from persons with great knowledge within the area. However the answer can not be considered to represent the opinions of all respondents. Further, interesting opinions and phenomenon that could have contributed to the qualitative study are probably not included since comments in the surveys are voluntary. Thus, based on lack of representation and possible missing information lowers the reliability of the qualitative study. However, the purpose with the qualitative study is solely to complement the quantitative research.

2.2.3.2 Validity

Validity refers to the validity of the conclusions and results of a research. High validity is reached if the researcher measures what was supposed to be measured, and noting irrelevant affects the result (Wallén, 1996). In order to reach high validity, the questions made in the survey are carefully designed in order to be perceived correctly by the respondents, and to be harmonious with the problem statement.

2.2.3.3 Criticism of choice of sources

There always exists a risk that the researcher has not used the most relevant sources (Thurén, 1997). Concerning this study, the sources used have been useful and should to a high degree be considered as relevant. However, it is possible that a complementation of other sources would have improved the material for the empirical study. I primarily refer to annual reports which could have contributed with information about to what degree the recommendation is observed. Further, a preliminary study based on interviews would possibly have improved and preparation for the empirical study.

2.2.3.4 Sample criticism

This research is based on the opinions of auditors. The reason for that is that they are the persons that have the best experience of how BFNAR 1999:1 perform in practice. Additionally, they have close contacts with the companies that they audit and other interested parties, in order to obtain opinions from other sources and perspectives than their own.

This study is not all-embracing. In order to achieve that, information would have been needed from more sources. Partly, quantitative information like annual reports etc. and partly opinions from other interested parties than auditors, for example creditors, legislators and the companies themselves.

3 Frame of reference

The Frame of reference consists of two parts. The first part treats juridical factors that influence BFNAR 1999:1, like directives, laws and recommendations. The second part treats, from different perspectives, the technical procedure of accounting 14:22 mergers. The purpose of the frame of reference is to serve as a foundation for the previous studies.

3.1 Legal system

BFNAR 1999:1 is influenced by a number of juridical institutions and rules. Swedish accounting legislation is a basic law that is complemented by a number of principles, recommendations and practices, and is to a great extent dependent on international directions. In this section, it will be described how the legal system affects BFNAR 1999:1

3.1.1 International directives and recommendations

In Sweden, international directives and recommendations are of great importance. When the entrance to the *European Union* took place 1995, Sweden engaged to adapt its legislation to directives in the European legislation. This have also affected legislation related to company law. Also standard setters like RR and BFN focuses on adapting Swedish accounting to international standards. This is done in order to facilitate comparisons between countries, and, thus, make it easier for investors to financially analyze companies⁸. However, the objective is to create a corresponding, but not uniform legislation between the member states (Törning & Buisman, 2002).

From the first of January 2005 all Swedish listed companies shall apply to international accounting principles in their consolidated financial statements. The standards applied are International Financial Reporting Standards (IFRS), and International Accounting Standards (IAS). IFRS is issued by *International Accounting Standards Board* (IASB). IAS was issued by IASB's predecessor International Accounting Standards Committee (IASC). The purpose of IASB is to work for international harmonization between different countries all over the world regarding accounting principles.

IASB influences, and is influenced by *Financial Accounting Standard Board* (FASB) which is an American organization with the purpose of establishing standards for financial accounting and reporting in accordance with generally accepted accounting principles (US GAAP)⁹. Swedish company law is only indirectly affected by FASB.

⁸ www.redovisningsradet.se

⁹ www.fasb.org

3.1.2 Swedish company law

Within Swedish company law, the regulation is emphasizing limited companies and financial markets. Many issues related to company law have a strong economical connection, concerning ownership, financing, accounting and auditing. The juridical procedure within mergers is regulated in ABL chap 14. This part is illustrated in (3.1.5). It is of great importance that the rules for accounting to the greatest possible extent makes the accounting in different companies comparable and uniform (Svensson & Edenhamar, 1996) The accounting legislation in Sweden is therefore formed as a basic (general) law. An important function is to enact a number of fundamental principles that serve as directions for how companies should handle their accounting and constitutes a number of minimal requirements of what information the companies must provide. The Swedish accounting legislation can be found in ÅRL and BFL. ÅRL contains directions for how annual financial reports shall be handled, and BFL specifies which regulations to apply on different forms of companies (Heinestam, 2004).

3.1.2.1 Accounting principles

General accounting principles	Basic accounting principles
The annual financial report and consolidated financial statement should, according to ÅRL, be set up in a <i>clear</i> way, and in accordance to <i>generally accepted accounting practices</i> . The balance sheet and income statement shall, including notes, provide a <i>true and fair picture</i> of the company's financial position and results (Törning & Buisman, 2002).	In addition to the general accounting principles, ÅRL (2:4) specify seven basic principles that must be observed when setting up the balance sheet, income statement and notes. The principles are described below: There exists possibility to deviate from these basic accounting principles, if particular reasons can be invoked, and the deviation is consistent with generally accepted accounting practices (Törning & Buisman, 2002).
<i>Clearness</i> (ÅRL 2:2) implies that the annual report should not contain detailed information to the extent that it will be difficult to bring out the essential parts of the material (Törning & Buisman, 2002).	<i>Going concern</i> : implies that it is assumed that the company shall continue its activity.
<i>Generally accepted accounting practices</i> (ÅRL 2:2) implies an obligation for companies to observe the accounting legislation and standards issued by institutions like RR and BFN. If legislation or standards do not exist within a specific area, generally accepted accounting practices should be determined according to existing practices (Svensson & Edenhamar, 1996).	<i>Consistency</i> : principles for valuating assets shall not be changed from one year to another. Such changes could seriously disturb the comparability between financial years.
<i>True and fair picture</i> (ÅRL 2:3) is a comprehensive description of generally accepted accounting practices. If a company observe legislation and generally accepted accounting practices, it normally achieve an annual report that provide true and fair picture of the company's financial position and results. If additional information to the annual report that shall be reported according to ÅRL are not sufficient, the company is obligated to provide the additional information necessary (Törning & Buisman, 2002).	<i>Prudence</i> : The value of assets and liabilities are dependent on future occurrences. Since these are difficult to foresee it is generally accepted that it is better to underestimate the assets and overestimate the liabilities in order to account a low equity (NE). <i>Set-of ban</i> : Set of is not allowed, nor between assets, allocations, or between incomes or expenses.
In addition to above mentioned principles, accounting is dependent on several other principles stated in legislation, standards or practice. A principle that frequently have been connected with accounting applied to mergers is the principle of congruity which is included in the preparatory work to ABL. <i>Congruity principle</i> : All changes in the value of the assets and liabilities shall be posted over the income statement. Any accounting directly in the balance sheet is according to this principle is not allowed, since such a way of action reduces the openness in the accounting (Falkman, 2001)	<i>Matching</i> : According to the matching principle, expenses allocated to a period, shall be accounted the same year as related incomes are posted. <i>Post by post valuation</i> : As a general rule, the components of the balance sheet item shall be valuated one by one. <i>Continuity</i> : The opening balance for the financial year shall be in accordance with the closing balance the financial year before.

Table 2 accounting principles

3.1.3 Recommendations

As mentioned above, Swedish accounting is a basic law that stipulates general rules. In addition, the legislation is complemented by an extensive number of recommendations. These recommendations are partly issued by governmental authorities and partly by other institutions. Recommendations are not laws, but they become binding with reference to generally accepted accounting practices (Svensson & Edenhammar, 1996). At the present, there exist two standard setters in Sweden, RR and BFN.

RR: The recommendations and statements from RR are primarily directed towards companies that are quoted on the stock exchange or companies that because of their size are of a large public interest (BFN 2002:2). RR's recommendations handle valuation, classification, delimitation of periods, and additional information (Törning & Buisman, 2002). The purpose of RR is to develop generally accepted accounting practices and create uniform accounting rules.

BFN: issues recommendations, adapted to RR's recommendations, to primarily unlisted companies (Törning & Buisman, 2002). However, the recommendations often treat interpretations of the legislation. In these situations all the companies that are required to keep accounts are applicable to the recommendations. BFNAR 1999:1 is applicable to all types of companies that are included in the recommendation (FAR INFO nr 12 2004). In conformity to RR, BFN issues standards for valuation, classification, delimitation of periods and for unlisted companies; additional information. Also BFN's purpose is to develop generally accepted accounting practices and create uniform accounting rules.

3.1.4 Groups

The group concept is defined in ÅRL 1:4, ABL 1:5 and RR 1:00. The general rule implies that a company must own more than 50 percent of the shares in another company in order to create a group relationship. Group relationships can also emerge when a company has a strong influence over another so called *associated company* (Ljungberg & Phillips, 2004). Groups must according to ÅRL 7:1 set up a consolidated financial statement. Exceptions are regulated in ÅRL 7:2 and 3:6.

The fundamental idea with the consolidated financial statement is that the companies in a group should be treated as one entity. This idea is based on two main objectives. One objective is that the group's result and financial situation should be regarded when estimating the amount of distributable equity. According to ABL 12:2, the parent company is not authorized to distribute more capital than the non-restricted equity in the consolidated balance sheet (Ljungberg & Phillips, 2004).

Sweden is one of few countries where the consolidated financial statement has influence over the distribution capacity. The Swedish Committee of companies limited by shares have in their proposition to a new Companies Act (SOU 2001:1) proposed new rules that imply that the consolidated financial statement shall not influence the distribution capacity of the parent company (Heinestam, 2004).

The other objective with setting up consolidated financial statements is to facilitate for interested parties to obtain a true picture of the financial situation and results of the companies within the group. This is based on the fact that companies within a group, within certain limits, can distribute results between them. By doing this the real results of the companies can be hidden, and a false picture of their statement of accounts will be shown.

3.1.4.1 Consolidated financial statements and mergers

The rules and recommendations related to groups and consolidated financial statements do not give any direct guidance of how a merger should be accounted. However, according to many authors there is a strong connection between consolidated financial statements and mergers (ter Vehn, 1956; Anell & Pettersson-Strid, 1986; Eriksson 1974; Smiciklas, 1993; Lewén 1995; Löfgren & Haglund, 1996; Ljungberg & Phillips 1997). The merger can be regarded as a two-step process where the first step is the establishing of the group relationship, and the second step is the actual merger. From this perspective, the values in the acquisition analysis of the subsidiary are the foundation for the values in the company after the merger.

3.1.4.2 Consolidated financial statement methods

According to RR 1:00, two main methods for handling the consolidated financial statements are suitable for achieving generally accepted accounting practices, the acquisition method and the pooling method. The acquisition method is used when one company acquires another, and the pooling method is used when two (equally large) companies establish a group and none of them can be considered as acquirer. Both groups that are established by means of the acquisition method and the pooling method are applicable to BFNAR 1999:1. However, pooling of interests in Sweden is uncommon, and since the method became invalid according to international standards IFRS 3 this form of business combination will probably decrease further. Due to this fact the pooling method will only be briefly described below. Further on, only the acquisition method will be discussed prohibit the method it is and the Further on, the pooling method will not be treated in this work

Acquisition method

The acquisition method is used when one company acquires another. The acquirer buys the assets and liabilities in the other company. When the group relationship emerges the assets and liabilities of the subsidiary are valued according to the acquisition value of the group. Since the process is regarded as a transaction between the purchaser and vendor, the vendor will control the assets and liabilities of the vendor. In the acquisition analysis, the values of the assets and liabilities in the subsidiary are revalued. The revaluation is based on the fair values of the assets and liabilities of the subsidiary. If the acquisition value for the shares in the subsidiary is higher than the fair values of the subsidiary's assets and liabilities, a group-based goodwill will arise in the consolidated financial statement. At the closure of the consolidated annual report, all the internal shares are eliminated against the group-based values and the acquired equity in the subsidiary. If the amount that shall be eliminated is larger than the restricted equity and untaxed reserves of the subsidiary, the remaining amount should be subtracted from the non-restricted equity (Heinestam, 2004).

Pooling Method

The pooling method is used when two companies "goes into each other". The officially acquiring company shall issue shares to the shareholders of the acquiring company. This method is used by equally large companies. Nobody should be able to identify any of the companies as acquirer of the other company. There exist two fundamental differences between the acquisition method and the pool-method. When the pool-method is used, assets and liabilities are not revalued, and assets and liabilities that did not exist in the companies before can not arise through the establishment of the group (Heinestam, 2004).

3.1.5 Mergers

From a juridical point of view, a merger takes place when one or various companies enters another company and ceases to exist. The assets and liabilities of a company is transferred to another company, at the same time as the former company dissolves without liquidation¹⁰ (Rylander Nyagah, Berggren & Edlund, 2004). Mergers from juridical point of view are treated in ABL chap 14. The chapter treats specifically different forms of mergers, the juridical procedure of mergers and rules regarded protection of creditors.

3.1.5.1 Different forms of mergers

ABL chap 14 describes three possible ways of performing a merger. The first form (ABL 14:1), is called *combination* and implies that two or various companies enters a recently formed company, that takes over the other companies' assets and liabilities. The shares in the entering companies are substituted by the shares or money in the recently formed company.

The second form (ABL 14:1) is called *absorption* and implies that one or various companies enter another company in change for compensation. The compensation consists of money or issued shares in the acquiring company.

The third form (ABL 14:22), absorption of fully own subsidiary, is usually called *14:22 merger* and is the only form that will be treated in this study. As the description recalls, the parent company owns all shares in the subsidiary, and therefore should not any merger-compensation be transferred. The legislation uses the designation "one subsidiary", but there is nothing that prevents a merger to include several subsidiaries or even second tier subsidiaries.

The legislation is only applicable on mergers between Swedish stock corporations, and not in connection to mergers between stock corporations and other types of companies, or between Swedish and foreign stock corporation. Rules concerning mergers between economic associations and between economic association and stock corporations are regulated in law 1987:667.

¹⁰ A liquidation is when a company's assets are disposed of, liabilities are paid and the surplus is divided between the shareholders (Heinestam, 2004)

3.1.5.2 The juridical procedure within 14:22 mergers

The formal procedure within according to ABL 14:22 can be divided into a number of actions with different participants involved. In the description below, the actions are represented in a number of steps. The description of the merger procedure is a summary from Lewén 1995, p. 5-10

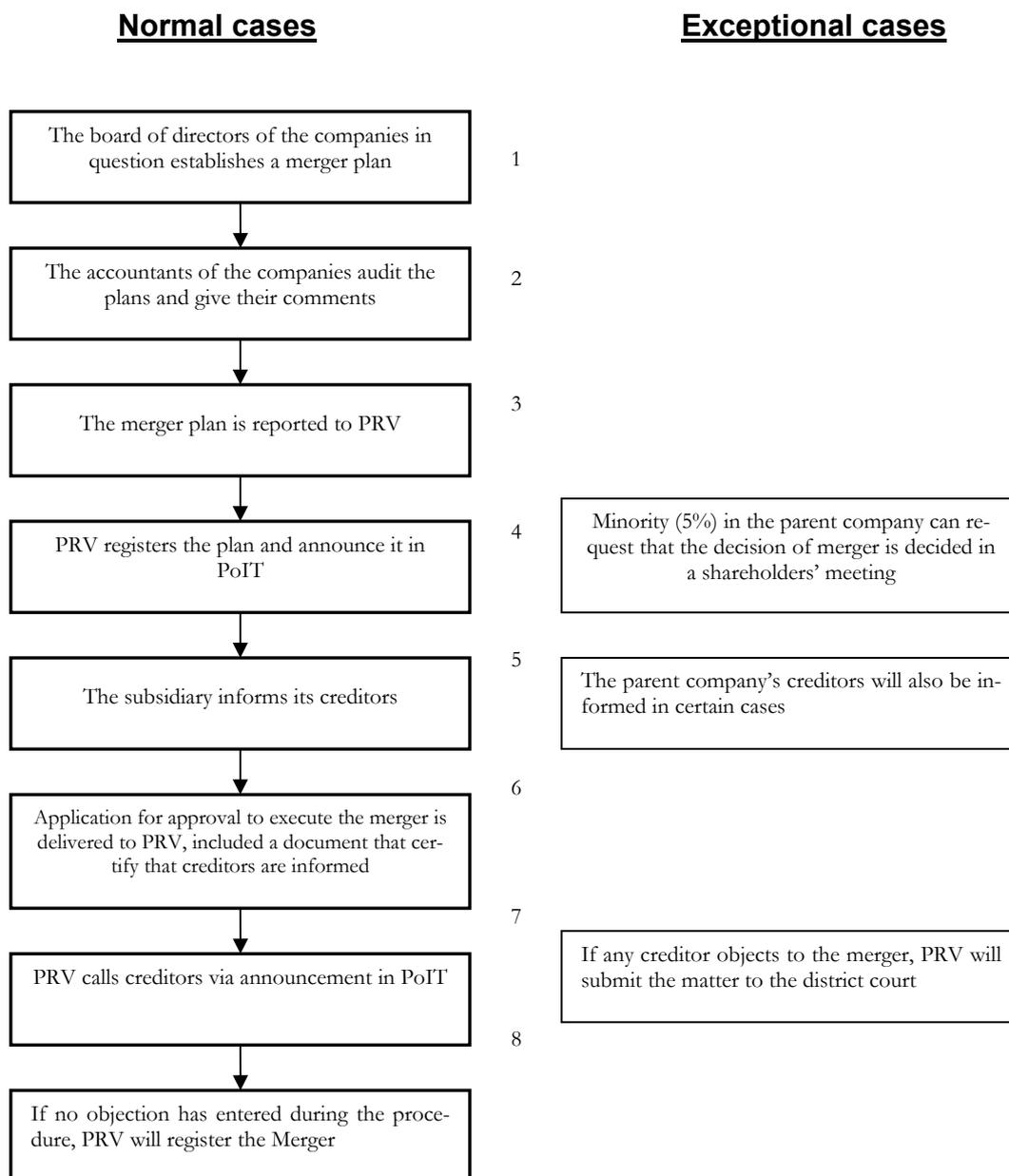


Figure 5 Juridical procedure within a 14:22 Merger (Source: Lewin 1995)

Step 1 (ABL 14:22)

The board of directors in companies concerned, decide that the subsidiary shall be merged into the parent company and establish a merger plan. The plan shall describe:

- Firm, organization number, headquarters and company category for each company.
- Planned time for the dissolution of the subsidiary.
- Rights that should go to possible possessors of convertibles, share options for capital subscription etc. in the subsidiary.
- Remunerations for board members, directors and accountants with relation to the merger.
- Circumstances that can be important for the judgment of the suitability of the merger.

Step 2 (ABL 14:23)

The accountants of the companies audit the merger plan and give their documentary comments. In the comments for the parent company the accountants shall state that creditors will get their receivables paid. Otherwise, specific protection rules for the parent company will be applicable.

Step 5 (ABL 14:26)

The subsidiary informs its known creditors about the merger. The information shall contain information about the forthcoming merger and the creditors right to object. The legislation assumes that creditors that oppose to the merger shall announce this to PRV¹¹.

Step 7 (ABL 14:27)

PRV tests the application according to step 6 and calls the subsidiary's creditors through announcement in PoIT¹². The announcement contains injunction for those who want to oppose to the merger within the time that is appointed by PRV (normally 2 months).

Creditors' protection in the parent company (ABL 14:26 and 14:13)

If the accountants have not stated the creditors' security, or directly expressed that risk for receivable losses for the creditors is present, the creditors of the parent company shall take part of the same actions that are valid for the subsidiary:

- Information according to step 5
- Certification according to step 6
- Calling via PRV's announcement according to step 7

¹¹ The Swedish Patent and Registration Office (Patent och registreringsverket)

¹² Post and domestic newspaper (Post- och Inrikes Tidningar)

3.2 Legal system and accounting applied to mergers

Swedish legislation and applicable directives and recommendation do not directly treat accounting applied to mergers. However, the legal system provides fundamental principles and directions that give some guidance in how to pursue the accounting of a merger.

3.2.1 1. Valuation

In Swedish company law ÅRL 4:4 the values of assets should be estimated according its acquisition value (some exceptions exist for example regarding current assets). Revaluations/appreciations of fixed assets are according to ÅRL 4:6 only permitted under certain conditions. Among other things the assets must have a lasting and reliable value considerably higher than the present value.

Based on legislation, three methods can be considered when valuating the assets and liabilities of the subsidiary in relation to a 14:22 merger.

1. The subsidiary's acquisition values. I.e. the book values of assets and liabilities in the subsidiary.
2. The parent company's acquisition values. I.e. the values that the assets and liabilities obtained when the parent company acquired the subsidiary (the group-based values).
3. The fair values at the time of the merger.

The two initial alternatives are applicable to ÅRL's view on valuation of assets to its acquisition values. The latter alternative does not have any direct support in company law, thus the legitimacy of the using the fair values are rather questionable. Moreover, it seems reasonable that ÅRL 4:6 should be applicable on the latter solution, which further complicates the situation. Also the use of group-based values could be considered illegitimate with reference to ÅRL 4:6.

The second alternative that implies that the values accounted in the consolidated balance sheet should be used, is applicable to recommendations regarding consolidated financial statements RR 1:00 (Swedish recommendation) and IFRS 3 (International recommendation that must be used by Swedish listed companies).

A group is established when an entity, the acquirer, takes control over one or more business (IFRS 3) by acquiring the assets and liabilities of the business/businesses. Both recommendations principally, with some exceptions, direct that fair values should be used when valuating the assets and liabilities subsidiary/subsidiaries. The valuation questions are discussed in IFRS 3 item 27 etc. and RR 1:00 item 50. If the group-based values are used in a merger, it is the values of the assets and liabilities that was established in the acquisition in accordance to IFRS 3 or RR 1:00 that are the foundation for the valuation.

3.2.2 2. Merger difference

The merger difference will affect the equity capital of the parent company. According to the congruity principle that exists in the preparatory work of ABL, all changes in equity that is not assignable to the owners should be posted over the income statement. Based on this view, the difference should be posted over the income statement.

3.2.3 3. Equity capital

The question of creditors' protection becomes present when the merger difference is to be posted in the equity of the parent company. The situation of the creditors is affected by the distribution between restricted and non restricted equity. Swedish company law is focused

on creditors' protection and handled in ABL chap 12 and 13. The five most important rules concerning creditors' protection are described below.

The distribution ban (ABL 12:1) implies regulates what part of the equity that can be distributed to the owners.

Prudence (ABL 12:2, ÅRL 2:4) implies that profit distribution shall not be realized to the extent that the distribution in relation to the consolidation need, liquidity or position is inconsistent with generally accepted accounting principles (Löfgren, 1992).

The lending ban (ABL 12:7) implies that it is forbidden for a limited or other company in the same group to lend money, provide collateral, security or guarantee to related persons.

Reduction of the share capital (ABL chap. 6) obligates companies to inform creditors if they plan to reduce the share capital.

Compulsory liquidation (ABL chap. 13): The purpose of the regulation is to make sure that companies with liquidity problems end their activity before they lose their ability to pay their liabilities.

3.2.4 4. Untaxed reserves

In legal persons untaxed reserves should be posted in one entry. Regulation in consolidated financial statements are different (FUL 11 §). RR 1:00 regulates untaxed reserves in groups. In the balance sheet of a group, the untaxed reserves should be divided in two parts, deferred tax liability and equity capital. If the corporation tax is 28 % the distribution becomes 28 % deferred tax liability and 72 % equity capital. How to handle the untaxed reserves in mergers is not regulated.

3.2.5 5. Annual report/accounts

The legislator does not clearly declare if the dissolving subsidiary should set up annual report/accounts. The legislation states that every financial year should be closed with annual report/accounts (ÅRL 2:1). The question is if financial years that are shortened by means of a merger are included in this definition.

3.2.6 6. Calculation time

The question concerns if the values at the day of the merger should be used, or if the values at the opening of the last financial year should be used. No direct guidance exists in company law or recommendations. Most suitable is to observe the principle of true and fair picture (ÅRL 2:3).

3.2.7 7. Same year

The question is concerns how handle the business transactions in the subsidiary if it is acquired the same year as the merger takes place. The legislation does not give any guidance, regarding true and fair picture (ÅRL 2:3) is essential. RR 1:00 and IFRS 3 can, however, be applicable to mergers in this question. Both recommendations regulate that incomes and expenses in the subsidiary should be posted in the consolidated income statement only from the day of the acquisition (IFRS 3, item 25 and RR 1:00 item 79).

3.3 Accounting applied to mergers

Fundamentally, authors have different opinions about accounting applied to mergers because of the fact that they look upon mergers from different perspectives. That is, they have different conceptions of what a merger actually is. Lennart Eriksson (1999) hold that the choice of perspective is based on which interested party one represent. During the debate three different main perspectives have been observed (Heniestam, 2004; Smiciklas 1993):

- **The subsidiary perspective**
- **The parent company perspective**
- **The group perspective**

From a subsidiary point of view a merger takes place when the subsidiary transfers its assets and liabilities to the parent company. Thus, a merger is a transfer (Heniestam, 2004; Smiciklas 1993). From a parent company point of view a merger takes place when the parent company acquires the subsidiary. Thus, the merger is an acquisition. From a group point of view a merger is nothing more than a group-internal reconstruction. That is, the value of assets, liabilities and equity shall be the same before the merger as after (Heniestam, 2004; Smiciklas 1993; Eriksson, 1999).

These three perspectives generate three different fundamental methods of how to account mergers: Book-value-method, Market-value-method and Group-value-method. As can be understood from the names, these methods are based on the choice of how to value the assets and liabilities of the subsidiary when accounting the merger (Heniestam, 2004; Smiciklas 1993).

- **The subsidiary perspective** - **Book value method**
- **The parent company perspective** - **Market value method**
- **The group perspective** - **Group value method**

3.3.1 Group value method

The assets, liabilities and equity of the subsidiary are transferred to the parent company at the value they have in the consolidated financial statements (group perspective). The time of value is when the parent company acquired the subsidiary. Since the balance sheet is practically the same after the merger as before, the merger-difference will be divided in the equity capital in the parent company equally as it was divided in the consolidated balance sheet (Heinestam, 2004).

The 1st of January year 1, Parent company acquires Subsidiary. The 31 of December year 3 the two companies merge into one company. To be able to distribute the equity correctly, an annual report for both the parent company and the subsidiary must be set up before the merger. Untaxed reserves and deferred taxes are not included in the example.

Acquisition analysis year 1		Consolidated balance sheet year 3			
		P C	Subsid.	Elim.	CBS
Acquisition price	200				
	200				
Share-capital	50				
Restricted equity	40				
Non-restricted equity	30				
Revaluation assets	40				
Group goodwill	40				
	200				
Shares in subsidiary		200		-200	0
Goodwill				25	25
Assets		100	500	25	625
Total		300	500	-150	650
Share-capital		40	50	-50	40
Restricted equity		20	50	-40	30
Non-restricted equity		80	120	-50	150
Years profit		10	30	-10	30
Liabilities		150	250		400
Total		300	500	-150	650

Subsidiary before the merger			
Assets	500	Liabilities	250
		Share-capital	50
		R equity	50
		N equity	120
		Years profit	30
Total	300	Total	300

Parent company before the merger			
Assets	100	Liabilities	150
Shares in subs.	200	Share-capital	40
		R equity	20
		N equity	80
		Years profit	10
Total	500	Total	500

Merger account			
Shares in subs.	200	Assets	500
Liabilities	250	Group surpluses	50
Merger diff.	+100		
Total	550	Total	550

Parent company after the merger			
Assets	25+500+100	Liabilities	250+150
Goodwill	25	Share-capital	40
		R equity	10+20
		N equity	70+80
		Years profit	20+10
Total	650	Total	650

Depreciation of group surplus values					
	Value at the time of the acquisition	Depreciation each year	Value at the time of the merger	Eliminated from non-restricted* equity year 3	Eliminated from years result year 3
Surplus assets	40	5	25	10	5
Group goodwill	40	5	25	10	5
Total	80	10	50	20	10

The illustration may need an explanation: The eliminations of the shares in the subsidiary is done in order to make the group appear as one company. Note that the eliminated equity plus the eliminated assets and goodwill is equal to 200. That is the same as the value of the shares in the subsidiary, or in other words, the acquisition price. The restricted equity 50+40 and 30 of the non-restricted equity is eliminated against the shares because this equity was acquired year 1. Revalued assets and goodwill have in total depreciated 30 from year 1 to 3. Since these 30 do not longer exist they are instead eliminated in the equity capital. 20 of these are previous years eliminated in non-restricted equity (would normally have been eliminated in restricted equity, but I want to show that it can be eliminated in non-restricted equity as well), and the depreciation of year 3 (10) is eliminated in the years profit. The merger difference is caused by two factors, 1: The values of the net-assets are higher than the acquisition price of the subsidiary, 2: The company still have group based assets and goodwill (50) that will increase the merger-difference.

Example 1 Group-value-method (authors own description)

3.3.2 Book value method

The subsidiary transfers its assets and liabilities to the parent company at the value they have in the subsidiary's balance sheet (subsidiary perspective). The time of value is when the subsidiary acquired the assets. Since the merger is regarded as a transfer from one company to another, the merger difference that appear should be posted in the income statement as profit or loss depending on if the difference is positive or negative. The equity changes size and the merger-difference will, within the frame of legislation, only affect the non-restricted equity. (Heinestam, 2004).

This example is based on example 1

Subsidiary before the merger				Parent company before the merger			
Assets	500	Liabilities	250	Assets	100	Liabilities	150
		Share-capital	50	Shares in subs.	200	Share-capital	40
		R equity	50			R equity	20
		N equity	120			N equity	80
		Years profit	30			Years profit	10
Total	300	Total	300	Total	500	Total	500

Merger account				Parent company after the merger			
Shares in subs.	200	Assets	500	Assets	500+100	Liabilities	250+150
Liabilities	250					Share-capital	40
Merger diff.	+50					R equity	20
						N equity	80
						Years profit	50+10
Total	500	Total	500	Total	600	Total	600

Example 2 Book value method (authors own description)

3.3.3 Market value method

The assets and liabilities of the subsidiary is transferred to the parent company at the current market values (parent company perspective). The time of value is the day of the merger. Since the merger is regarded as an acquisition, the merger-difference that appear should be posted in the income statement as profit or loss depending on if the difference is positive or negative. The equity changes size and the merger difference will, within the frame of legislation, only affect the non-restricted equity (Heinestam, 2004).

Before the merger the company must realize a an acquisition analysis to find out the fair values of the subsidiary. This example is based on example 1

Acquisition analysis at the time of the merger	
Book value of assets	500
Market value of assets	650

Merger account				Parent company after the merger			
Shares in subs.	200	Assets	650	Assets	650+100	Liabilities	250+150
Liabilities	250					Share-capital	40
Merger diff.	+200					R equity	20
						N equity	80
						Years profit	200+10
Total	650	Total	650	Total	750	Total	750

Example 3 Market-value-method (authors own description)

4 BFNAR 1999:1

In this chapter, the parts of BFNAR 1999:1 relevant for this study will be summarized.

This is a summary of BFNAR 1999:1. Only the parts that are related to the problems discussed in the previous studies is referenced here. The complete recommendation is attached in appendix 1.

4.1 1. Valuation (item 5)

The assets and liabilities that the parent company takes over through the merger shall be valued according to the group-value-method. The method implies that the parent company takes over assets and liabilities to values based on the acquisition analysis that was set up at the time of the acquisition of the subsidiary.

Accordingly, BFN generally support the group perspective, and consequently regards the merger as internal reconstruction.

4.2 2. Merger difference (item 16 &18)

The merger-difference should consist of the difference between,

- The group-based values of assets and liabilities that is assignable to the subsidiary after adjustments for applications of different accounting principles in group and legal person and with deduction for untaxed reserves

and

- The book value of the shares in the transferring company.

The merger difference shall be transferred directly to the equity of the parent company. It should be posted in non-restricted equity if the merger difference is not applicable to items 19-20 and 22 for the entire or parts of the difference.

BFN observe the group perspective by not letting the merger difference affect the income statement of the parent company. BFN's solution to post the merger difference in the non-restricted equity if the merger difference does not apply to items 19-20 and 22, does not fully correspond to the group perspective. Exceptions, for example when restricted equity in the subsidiary is not eliminated by depreciation of surplus values may occur. In this situation the consolidated balance sheet consists of restricted equity that will not be restricted in the balance sheet of the parent company after the merger.

4.3 3. Equity capital (item 19)

Revaluation reserve (appreciation fund) in the subsidiary as well as share-capital that have emerged from appreciation shall be transferred to the appreciation fund in the parent company if the appreciation was executed after the acquisition of the subsidiary and if the amount of the appreciation has increased the equity capital of the group.

Revaluation reserves as well as share-capital are restricted capital in the consolidated financial statement. Item 19 implies that such entries will be restricted capital also after a merger. Thus item 19 correspond to the group perspective.

4.4 4. Untaxed reserves (item 13)

The untaxed reserves of the subsidiary shall be accounted as untaxed reserves also in the parent company. It should be posted directly in the balance sheet and not as a balance-sheet allocation in the income statement.

4.5 5. Annual report/accounts (BFN's comments to item 14)

The subsidiary shall not close the accounts of the merger year by setting up annual report or accounts. BFN are of the opinion that there exists either obligation or possibility for a dissolved company to set up annual report or accounts. A dissolved company does not have any representatives and therefore there exists board of directors that can sign the annual report or accounts, and no meeting that can adopt the balance sheet and income statement.

BFN chose to adhere to its decision (it received apparent criticism in the referral comments) of not standardizing the set up of annual report/accounts in the dissolving company, referring practical reasons.

Untaxed reserves shall according to BFN be posted as untaxed reserves in the parent company. In this matter BFN does not observe the group perspective, in which it would have distributed the untaxed reserves between equity capital and deferred tax liabilities.

4.6 6. Calculation time (item 17)

When the merger difference is calculated, the values at the entering of the last financial year shall be used.

BFN's solution implies that the business transactions in the subsidiary the year of the merger will affect the income statement of the parent company. This solution does not deviate from the group perspective since the above mentioned business transactions also would have been brought up the consolidated statement.

4.7 7. Same year (item 15)

If one part of the subsidiary's profit of the year refers to time before the parent company acquired the subsidiary, this part shall not be included in the parent company's income statement.

BFN's solution in this matter correspond to RR 1:00 item 79 and IFRS 3 item 25

5 Previous studies

The literature within accounting applied to mergers is extensive and is fundamental for this study. In addition, when regarding BFNAR 1999:1 specifically, there exists sources of information that are valuable material for evaluating the recommendation. This is found in the referral comments to BFN's recommendation. Accordingly, previous studies are divided into two parts:

- Previous literature 4.1.1
- Referral comments 4.1.2

Previous literature

The literature within the area of accounting applied to mergers principally discusses particular issues that have caused uncertainty among accountants. The same basic problems have, in fact, been discussed since Richard Elinder (1956) wrote an article, in the Swedish journal *Affärsekonomi*, that broke the ground for a debate that would last until BFNAR 1999:1 came into force in year 2000. In the section *Previous literature*, the literature within accounting applied to mergers will be summarized. This will provide information about different accounting methods related to accounting applied to mergers, and advantages and disadvantages that each method imply.

Referral comments

In connection to the development of BFNAR 1999:1, BFN remitted a proposal of the recommendation to almost 50 authorities, with the objective of receiving external opinions about the proposal. BFN received many comments and suggestions from the authorities. In the section *Referral comments*, the referral comments to BFN's proposal within the subject will be summarized. This will provide information about criticism towards specific items within BFN's recommendation.

	This section is a:	This section will provide information about:	The purpose of this section is:
Previous literature 5.1	Summary of previous literature within accounting applied to mergers.	Different accounting methods related to accounting applied to mergers, and advantages and disadvantages that each method imply	Obtain information about disadvantages in BFNAR 1999:1. This information will be used in the evaluation
Referral comments 5.2	Summary of referral comments	Criticism towards specific items within BFN's recommendation	Obtain information about disadvantages in BFNAR 1999:1. This information will be used in the evaluation

Table 3 Previous Studies

5.1 Previous Literature

The literature in the area of accounting applied to mergers is extensive because of the fact that it has been debated since the mid fifties and did not get regulated until January 2000. Authors have supported different accounting approaches that are applicable within the frame of legislation. Consequently, a variety of different accounting methods related to mergers are illustrated and debated in the literature, particularly within the areas where the authors have different opinions.

In the literature of accounting applied to mergers, the authors advocate one or more accounting perspectives. Many different solutions are proposed within or even outside the frame of the perspective supported..

There are a number of accounting problems that have been more frequently discussed in the literature. These are: How to estimate the value of the assets and liabilities in the subsidiary before the merger, where to post the merger difference in the parent company, how to distribute the merger-difference in the equity capital of the parent company, how to handle untaxed reserves and how to handle annual report/accounts in the dissolving company. Consequently, these are also the most important issues that BFN treats BFNAR 1999:1

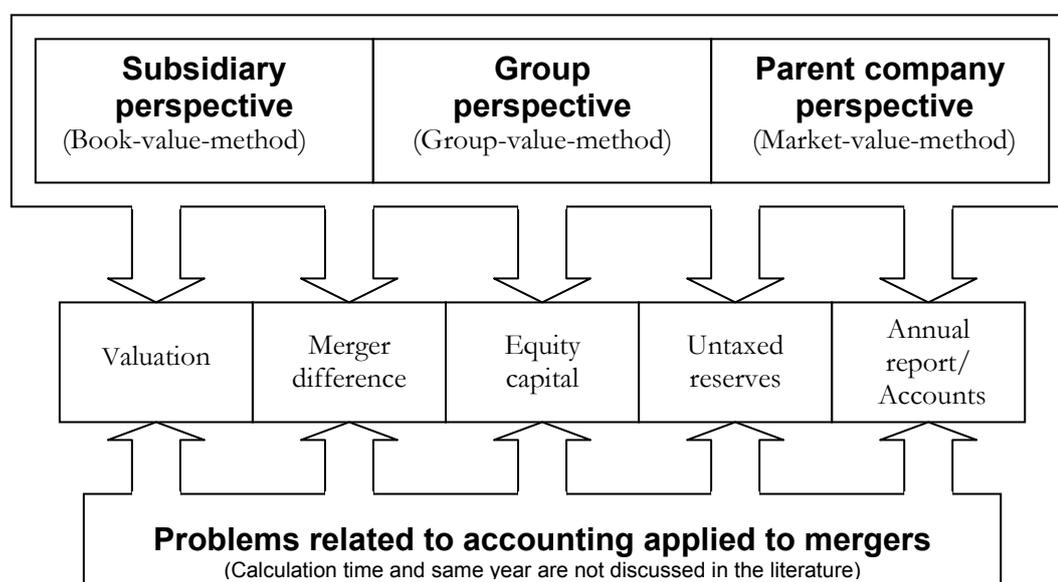


Figure 6 Connection between accounting perspectives and accounting problems (authors own figure)

Figure 6 illustrates the connection between merger accounting perspectives and merger accounting problems. That is, the method used to solve a certain merger accounting problem generally emerge from a specific merger accounting perspective.

The purpose of previous studies is to illustrate the debate related to accounting applied to mergers that have been conducted since the mid fifties. This will provide information about:

1. Important uncertainties (see Table 7) related to accounting applied to mergers,
2. Different accounting methods that handle above-mentioned uncertainties,
3. Advantages and disadvantages related to each accounting method used.

5.1.1 1. Valuation

A major question regarding accounting applied to mergers is how to value the subsidiary's assets and liabilities at the time of the merger. Three valuation-methods are discussed in the literature, book-value-method, market-value-method and group-value-method.

1. Richard Elinder 1955

Richard Elinder (1955) contemplated whether one should regard the merger as an acquisition of the subsidiary's assets and a takeover of its liabilities, or as a re-grouping of balance sheet items. In the former case, the parent company could within some limits revalue the parent company's shares in the subsidiary (i.e. actually equivalent to a revaluation in the subsidiary's assets and liabilities). In the latter case the value of the subsidiary is equal to the book value of the parent company's shares in the subsidiary.

Elinder supported the former alternative. He holds that a merger involves a real change concerning the property of the parent company. Before the merger, one owns shares in the subsidiary. The future value of the shares is dependent on the mode of action of another legal entity, i.e. the subsidiary. After the merger, on the other hand, one owns different assets and liabilities that, that each one should be valued according to the particular basis that ABL provide.

Elinder was, however, relatively strict concerning revaluation. He stated that obtained assets and liabilities should normally not be valued higher or lower in the parent company than the value they had in the subsidiary's balance sheet. He based this opinion on the principle of prudence. Obtained assets should, according to Elinder only, be posted to a higher value than they were in the subsidiary, if the nominal merger-difference was negative. However, an appreciation should, in any case, only be permitted if the assets in question evidently had a higher value.

In summary, Elinder supported the parent company perspective. To provide a proper economical description of the overtaking company, assets and liabilities in the subsidiary should be valued to their market values. However, Elinder believed that the market value method in practice could easily come into conflict with the principle of prudence. Therefore he considered it necessary to use the book-value-method in general and the market-value-method only in exceptional cases.

2. Elisabet Annell & Helene Pettersson-Strid 1986

Elisabet Annell and Helene Pettersson-Strid (1986) Believed that the subsidiary can be valued in two ways, book values of the subsidiary or the value they have in the consolidated financial statement (book-value-method and group-value-method).

Further they discussed whether it is legal to use the group-value-method if the subsidiary has group based surplus values that emerged at the time of the acquisition of the subsidiary. Annell and Pettersson-Strid referred to the appreciation prohibition in former BFL 15 § (compare present legislation in ÅRL 4:6). However, the authors argue that a higher value of the subsidiary should be regarded as an acquisition cost, and not as an appreciation. Thus, group based surpluses can also after a merger be posted as an asset in the balance sheet.

In summary, Annell and Pettersson-Strid supported the group perspective. They state that, from a group point of view, a merger should not generate changes in the assets and liabilities that existed earlier in the consolidated financial statement. However, they supported both the group-value-method and the book value-method. Their statement can thus be questioned since the book-value-method eliminates group based surpluses from the consolidated financial statements by means of an extraordinary depreciation of assets in the income statement.

3. Christer Westermark 1992

Westermark (1992) proposes that the general rule when valuating the assets and liabilities of the subsidiary should be the fair value of the parent company's shares in the subsidiary at the time of the merger. Thus, Westermark's point of view is in line with Elander, but goes even further since he does not take the rule of care into consideration. However, Westermark, holds that it is in general practically impossible to execute the market value method. Therefore, the market value (similarly to Elinder's opinion) should be represented by the book values of the subsidiary's assets and liabilities. Westermark argues that the book value of the parent company's shares in the subsidiary is not relevant since it does not reflect the true values of the subsidiary.

In summary, Westermark support the parent company perspective. He states that the subsidiary's assets and liabilities should be valuated according to their market values at the day of the merger. However, since this is practically impossible to realize, assets and liabilities should then be valued according to their book values.

4. Jörgen Lewén 1995

Lewén (1995) reject the market-value-method since he believe that this method violates the accounting principle of continuity. That is, the value of the subsidiary's assets and liabilities will not be the same after the merger as it was before. Lewén holds that if the market-value-method is allowed, one can evade the valuation rules in former BFL 14-15 § (compare to present legislation ÅRL 4:6). Therefore he stated that the market-value-method is unsuitable.

The book-value-method is according to Lewén practicable since continuity is reached at the company level. That is, the parent company takes over the exact value of the of the subsidiary and, thus, the principle of continuity is not violated. He advocate the book-value-method in situations when the merger is not complicated, for instance when the subsidiary is inactive or when the merger difference does not imply any considerable effect on the equity capital.

The book-value-method can however lead to serious liquidity problems for a company. Big merger deficits (not tax deductible) can emerge since group based surplus values are not included in the merger difference. The deficit will decrease the equity capital of the company and if the equity fall below half of the registered capital stock after the merger, the question of compulsory liquidation according to ABL 13:2 appear.

Also the group-value-method is practicable since continuity is reached. However, in this case at a group level. That is, the value of the consolidated balance sheet is the same after the merger as before.

In summary, Lewén support in both the group perspective and the subsidiary perspective, but advocates primarily the group perspective. The subsidiary perspective he considers most suitable in uncomplicated mergers, for instance when the subsidiary is inactive or when the merger difference does not imply any considerable effect on the equity capital. However, the book-value-method can cause liquidity problems if the merger creates big merger deficits.

5. Bengt Heinestam & Ulf Svensson 1998

Heinestam & Svensson (1998) concur with Lewén about the opinion that the book-value-method is most suited for inactive subsidiaries or subsidiaries with small group based surpluses in their assets. They also point out that the book-value-method coincides with the rules in the fiscal legislation (compare NJA, 1995, p 742). That is, a subsidiary can transfer its assets and liabilities up into another company.

However, Heinestam and Svensson notice a problem, or at least a disadvantage, from a continuity point of view, regarding the book-value-method. Even though continuity is reached at the company level, it does not reach continuity at a group level. This is thus difficult to accept if the merger is regarded as a group internal reconstruction.

6. Roland Ljungberg & Dan Phillips 1997

Ljungberg and Phillips (1997) support the group-value-method. Thus, according to them, the value of the subsidiary's assets and liabilities should be equal to the value in the consolidated financial statements. However, in opposite to Anell and Pettersson-Strid, they argue that group based surplus values should not unprejudicedly be posted as an asset in the parent company (referring to the appreciation prohibition). Instead, the company must make a judgment and decide whether the not yet depreciated surpluses correspond to the same value at the time of the merger. If the business of the subsidiary continues in the merged company and if the surpluses correspond to a fair value, they can be posted as "merger goodwill" in the merged company.

Author	Valuation-method supported	Argumentation
1.Elinder (1955)	Market-value-method (Book-value-method)	A merger involves a real change concerning the property of the parent company. Thus, assets and liabilities that the parent company obtains should be valued according to the particular basis that ABL provide. However, this method, even though it is correct, violates the principle of prudence and should only be used in specific cases. Generally, the most similar book-value-method should be used.
2.Annell & Pettersson-Strid (1986)	Book-value-method and (Group-value-method)	A merger should not generate changes in the assets and liabilities that existed earlier in the consolidated financial statement. The authors argue that both the Book-value-method and the Group-value-method can be used for this purpose.
3.Westermark (1992)	Market-value-method (Book-value-method)	The general rule when valuating the assets and liabilities of the subsidiary should be the fair value of the parent company's shares in the subsidiary at the time of the merger. Since it is practically difficult to use the fair values, the market value should be represented by the book values of the subsidiary's assets and liabilities. Group based values are not relevant since they do not reflect the true values of the subsidiary.
4.Lewén (1995)	Book-value-method and Group-value-method	Both book-value-method and group-value-method are accepted since they both achieve continuity.
5.Heinestam & Svensson (1998)	The authors only describe the different alternatives.	Point out that some experts argue that the book-value-method does not achieve continuity from a group perspective and could thus not be used in a group
6. Ljungberg & Phillips (1997)	Group-value-method	The group-value-method should be used since the value of the subsidiary's assets and liabilities should be equal to the value in the consolidated financial statements. However, the company must first make a judgment and decide whether the not yet depreciated surpluses correspond to the same value at the time of the merger.

Table 4 Previous literature, valuation

5.1.2 2. Merger difference

There exists basically two ways of how to handle the merger difference. It could either be posted directly in the equity capital or in the income statement of the parent company. The same possibility exists when posting the merger difference in the consolidated financial statement (that is if the group still exists after the merger).

1. Richard Elinder 1955

According to Elinder (1995), one must differ between an appreciation of shares in the subsidiary, and the equally big revaluation of assets and liabilities that would arise from a merger. Since an appreciation of shares is not regarded as a capital gain, it is not distributable. However, a profit emerged from revaluated assets and liabilities should be regarded as a capital gain and, thus, be distributable. Hence, Elinder discerned a difference between owning the shares of a company in opposite to own the property of a company.

Therefore, a merger surplus should be posted in the income statement of the parent company available for distribution, except eventual transfers to the reserve fund in accordance with ABL.

If a merger deficit exists, the deficit can be reduced if there are hidden reserves in the subsidiary's assets. In that case, the low value of the subsidiary's assets is illusory. The hidden reserves can then be dissolved against the merger deficit. Remaining deficit should be posted as a loss in the income statement.

2. Albert ter Vehn 1956

Ter Vehn (1956) questioned if a merger can generate a profit that did not exist in the group before the merger. He required a rule that would regard the merger as a internal reconstruction but without changes from an external point of view. From this perspective a profit generated from a merger is hardly justifiable.

3. Christer Westermark 1992

Christer Westermark (1992) argues that the merger difference should be posted in the income statement regardless if it is a surplus or a deficit. The merger difference is based on the difference between the booked value of the shares in the subsidiary and the booked value of the subsidiary. Westermark continues by arguing that a direct transfer to the merger difference to the parent company's balance sheet would signify a violation against the principle of congruence. He refer to the rules 11:7, 12:2 and 12:4 in ABL.

In summary, Westermark rejects the possibility to regard the merger as an internal reconstruction, and presuppose that it must be considered as an acquisition. The merger difference must therefore be operated as a profit or loss according to principles and rules in the legislation.

4. Jan-Hugo Nihlén & Sven-Arne Nilsson 1999

Jan-Hugo Nihlén & Sven-Arne Nilsson (1999) support the group-value-method. However, they believe that the merger difference should be take part in the income statement of the parent company, no matter if it is negative or positive.

A merger surplus represent, according to Nihlén and Nilsson, the amount that the subsidiary legally could have distributed to the parent company's before the merger without the need of writing down the value of the shares in the subsidiary. Therefore the merger surplus should be posted in the income statement of the parent company. Thus, Nihlén and

Nilsson deviate from the group perspective in this matter. Also in the consolidated financial statements the merger should be posted as profit or loss in the consolidated income statement. Neither this procedure is according to the group perspective.

5. Lennart Eriksson 1974, 1999

Previously, Eriksson (1974) strongly advocated a group perspective: The merger goes through two steps, firstly the establishment of the group (the acquisition), and secondly the actual merger. These two steps have a connection. To get continuity in the accounting it is important that the interested parties of the company do not receive a erroneous impression of the results of the company. By using the same method of accounting that has been used in the group, the interested parties will get a better picture. That is, the merger difference must be transferred directly to the balance sheet of the parent company. If the merger-difference was posted in the income statement of the parent company, interested parties would risk valuating the return on capital and distribution potential incorrectly. This method, however, has some drawbacks, it violates the principle of congruence (which implies that all property changes should be posted as incomes or expenses in the income statement, except changes that are assignable to the owners, for example new share issues and dividends). Eriksson (1974) agreed that this is a problem, however he defend his method by pointing out that it is more important to achieve good comparability between different accounting periods than achieve congruence.

In later years Eriksson has developed his theory, and primarily he has treated the “congruence problem”. Now Eriksson (1999) holds that the accounting of the merger difference should be executed in accordance to the perspective that is used.

- In the consolidated financial statement the group perspective is used, the merger-difference should then be posted directly in the balance sheet of the parent company, and distributed between restricted and non-restricted equity. The merger difference is calculated according to the group-value-method.
- In the accounting of the parent company, on the other hand, the parent company perspective is used; the merger difference should then be posted in the income statement. The merger difference is calculated according to the book-value-method

Eriksson points out that this is in accordance to the principle of congruence; when the merger is regarded as a reconstruction, the merger difference is posted directly in the balance sheet and when the merger is regarded as an acquisition, the merger difference is posted in the income statement.

The consequence of this is that a merger must be handled in two ways, one way in the group and one way in the parent company. A problem arises when the merged subsidiary is the only subsidiary in the group. In that case there will be no group after the merger and, thus, the company cannot set up any consolidated financial statements. Eriksson holds that in this situation, the merger-difference should be posted directly in the balance sheet of the parent company, and, thus, not in the income statement.

In summary, Eriksson reasons that congruence and clear information to interested parties are important factors when accounting mergers. To satisfy these factors, the merger must be seen from two perspectives, partly the parent company and partly the group. Consequently, the merger will be handled in two ways. In the parent company the merger is accounted according to the parent company perspective, and in the consolidated financial statements the merger is accounted according to the group perspective.

Author	Where to post the merger-difference	Argumentation
1. Elinder (1955)	In the income statement	The merger is an acquisition. If the acquisition generates assets to a higher value than the value of the shares in the subsidiary, the parent company has made a profit that, thus should be booked in the income statement.
2. Ter Vehn (1956)	In the balance sheet	A merger can not generate a profit that did not exist in the group before the merger. The merger is an internal reconstruction without changes from an external point of view. From this perspective a profit generated from a merger is hardly justifiable
3. Westermarck (1992)	In the income statement	A direct transfer to the merger difference to the parent company's balance sheet would signify a violation against the principle of congruence. That is, the equity can not be changed without changes in the income. Thus, the merger difference must be posted in the income statement.
4. Nihlén & Nilsson (1999)	In the income statement	A merger surplus represents the amount that the subsidiary legally could have distributed to the parent company before the merger, without the need of writing down the value of the shares in the subsidiary. Therefore the merger surplus as well as a deficit should be posted in the income statement of the parent company.
5. Eriksson (1974, 1999)	In the income statement of the parent company In the balance sheet of the consolidated financial statement	To achieve congruity the merger difference must be posted in the income statement of the parent company and in the balance sheet of the consolidated financial statement. The fundamental idea behind this approach is that the merger difference does affect the income of the parent company, but not the group.

Table 5 Previous literature, merger difference

5.1.3 3. Equity capital

The creditors of the parent company and the subsidiary are affected by how the merger difference is handled in the merger. I.e., how it is distributed between restricted and non-restricted equity in the parent company. If the merger causes an increase of the non-restricted equity in the parent company, the protection for the creditors will decrease. The protection of creditors within mergers is regulated in ABL 14 kap. However it does not explicitly describe how the merger difference should be distributed in the parent company's equity capital.

1. Richard Elinder 1955

Elinder (1955) regarded the merger as an acquisition. If the price paid in the acquisition is lower than the fair value of the assets obtained, the company had, according to the author, made a profit. A profit is distributable, except eventual transfer to reserve fund in accordance with ABL.

Elinder argue that if parts of a merger surplus do not result in distributable earnings, the parent company would come into an inferior situation compared to if it would have acquired an identical directly. Thus, Elinder continues to support the parent company perspective.

2. Albert ter Vehn 1956

Albert ter Vehn (1956) does not concur with Rickard Elinder. The parent company does not, according to ter Vehn, "sell its shares" to an external party, the merger is only an internal reconstruction. Therefore it is not correct to post profits in the parent company after the merger that would not have emerged in the consolidated balance sheet. Ter Vehn, support the group perspective and holds that, only the distributable means that emerged during the time between the acquisition and the merger, should be counted as an increase of the distributable means in the parent company.

3. Elisabet Annell & Helene Pettersson-Strid 1986

Elisabet Annell & Helene Pettersson-Strid (1986) point out that that some part of the subsidiary's equity, apart from the capital stock, has been restricted. If this equity have been added at a time after the acquisition, this could become non-restricted and distributable capital in the parent company after the merger (non-restricted equity that existed before the acquisition will not be part of the merger-difference since it is included in the acquisition value). Even restricted capital that is the outcome of appreciation of capital assets will become distributable. To prevent this, the appreciated amount should be posted in the restricted equity of the parent company. According to Annell and Pettersson-Strid (even though they support the book-value-method) the group will have the same appearance before the fusion as after, and the creditor protection would then be unchanged. Thus, they look upon the distribution of equity from a group perspective and coincide with ter Vehn's (1956) reasoning.

4. Jan-Hugo Nihlén & Sven-Arne Nilsson 1999

Jan-Hugo Nihlén & Sven-Arne Nilsson (1999) agree with Annell and Pettersson-Strid (1986) and declare that amounts appreciated in the subsidiary between the acquisition and the merger should be posted in the restricted equity of the parent company.

5. Kent Löfgren & Lennart Haglund 1996

Kent Löfgren & Lennart Haglund (1996) argue that a merger is preceded by information to all known and unknown creditors who can claim payment or sufficient security for their receivables. Therewith, the authors hold that the creditors' right is not violated, creditors can prevent the merger and, thus, the issue of prohibited profit distribution can never be raised.

6. Martin Smiciklas 1993

Martin Smiciklas (1993) principally take the creditor protection into consideration. The merger-difference should, thus, correspond to the legislation that treats the protection of the equity capital of companies. Smiciklas points out that the merger should be executed in a manner that primarily offers the creditors of the parent company protection. He defends this opinion by stating that the creditors of the parent company do not have the same protection as the creditors of the subsidiary. That is, the creditors of the subsidiary are given the possibility to demand security for their receivables during the merger procedure (see 3.3.2).

Smiciklas stressed that the creditors of the parent company will not suffer damage if the non-restricted equity in the parent company, after the merger, does not exceed the non-restricted equity related to the consolidated financial statements before the merger.

Author	How to distribute merger-difference in the equity capital	Argumentation
1. Elinder (1955)	The whole merger-difference should be posted in the non-restricted equity.	If the price paid in the acquisition is lower than the fair value of the assets obtained, the company has made a profit. A profit is distributable, except eventual transfers to reserve fund in accordance with ABL.
2. Ter Vehn (1956)	Only the distributable means that emerged during the time between the acquisition and the merger should be posted in the non-restricted equity.	The parent company does not "sell its shares" to an external party, the merger is only an internal reconstruction. Therefore it is not correct to post profits in the parent company after the merger that would not have emerged in the consolidated balance sheet.
3. Annell & Pettersson-Strid (1986)	The whole merger-difference, except appreciations in the subsidiary after the acquisition, should be posted in the non-restricted equity.	The merger difference that is based on profits generated from the subsidiary should be regarded as non-restricted. Profits are distributable and, thus, belong to non-restricted equity.
4. Nihlén & Nilsson (1999)	Agree with Annell & Pettersson-Strid.	Agree with Annell & Pettersson-Strid.
5. Löfgren & Haglund (1996)	The whole merger-difference should be posted in the non-restricted equity.	a merger is preceded by information to all known and unknown creditors who can claim payment or sufficient security for their receivables.
6. Smiciklas (1993)	The parent company should not have more non-restricted equity after the merger as the group had before.	The merger should not deteriorate the situation for the creditors of the parent company. That would happen if the non-restricted equity increased by means of a merger.

Table 6 Previous literature, equity capital

5.1.4 4. Untaxed reserves

According to ABL 14:1, a merger implies that a company takes over another company's assets and liabilities. Consequently untaxed reserves (tax allocation reserve, replacement reserve, tax equalization reserve etc.) are not included in this description. However, according to fiscal legislation a merger does not require that the untaxed reserves must be dissolved and brought up for taxation. Instead the parent company is authorized to transfer the untaxed reserves of the subsidiary to its own corresponding account. This is compatible to the principle of continuity according to a fiscal legislation point of view. That is, the parent company moves in to the subsidiary's fiscal situation.

1. Jan-Hugo Nihlén & Sven-Arne Nilsson 1999

Nihlén and Nilsson are of the opinion that the subsidiary's untaxed reserves should be treated in a manner that is in accordance with their definition of the merger difference. From their definition, the merger difference is based on the profits in the subsidiary between the day of the acquirement and the merger. Profits that have been posted in untaxed reserves during this time, should thus not be removed from the merger difference.

Nihlén and Nilsson differ between earned and acquired untaxed reserves. Earned untaxed reserves are the untaxed reserves that the subsidiary has earned between the acquisition and the merger. If earned untaxed reserves would be posted in the merger account (debit) at the time of the merger, the merger difference would reduce with the same amount. That would not correspond to Nihlén's and Nilsson's definition mentioned above. Instead balance-sheet allocations (income statement) should be accounted (debit) and the untaxed reserves account in the parent company be posted on the opposite side.

If the untaxed reserves are acquired (i.e. existed before the acquisition of the subsidiary) it can not be posted in balance-sheet allocations. The untaxed reserves are in this case not a contribution to increased merger difference, and would therefore actually decrease the result of the parent company. Instead, the restricted equity of the parent company should be posted (debit). This will not cause any effect on the result and correspond to the fact that the untaxed reserve was a part of the equity already at the acquisition of the subsidiary.

2. Kent Löfgren & Lennart Haglund 1996

Löfgren and Haglund argue that it would be wrong to apply the group-perspective in a merger only concerning valuation of the subsidiaries assets, but not concerning the handling of untaxed reserves. In the consolidated balance sheet the untaxed reserves are divided into partly equity capital and partly deferred tax liabilities. Löfgren and Haglund reason that they should be treated equally in the merger; otherwise the parent company will have a liability in their balance sheet that did not exist in the consolidated financial statement. Thus, the equity part should be eliminated, and the deferred tax liability part should be posted as deferred tax in the parent company. If the equity part is treated as a liability (untaxed reserve) it will reduce the distributable capital which will directly affect the parent company practically.

3. Jörgen Lewén 1995

Lewén (1995) support the group accounting perspective and states that the untaxed reserves should be posted in the parent company as they were in the consolidated financial statements. That is, one part as restricted equity, and one part as deferred tax liability. That is, according to present tax rate, 72% and 28% respectively. However, this is not realizable in individual companies since it violates the legislation. Since the group perspective cannot be used Lewén concludes that the alternative is to post the subsidiary's untaxed reserves in the corresponding accounts in the parent company. Thus, according to Lewén, the method supported by Löfgren and Haglund (1996) is not legitimate.

4. Roland Ljungberg & Dan Phillips 1997

Ljungberg and Phillips (1997) are of the same opinion as Lewén (1995). They consider the untaxed reserves a liability and believe that they should be moved directly to the untaxed reserves in the parent company.

Author	How to handle untaxed reserves in the merger	Argumentation
1. Nihlén & Nilsson (1999)	Untaxed reserves that are earned after the acquisition of the subsidiary should be posted in the income statement of the parent company. Acquired untaxed reserves should be posted in directly as untaxed reserves in the parent company.	Earned untaxed reserves are the outcome of profits in the subsidiary should, thus not affect the merger difference. Therefore they should be in the income statement of the parent company via the balance-sheet allocations.
2. Löfgren & Haglund (1996)	The untaxed reserves should be treated as in the consolidated financial statement. That is: Distributed between equity capital and deferred tax liabilities	It is, within a merger, inconsistent to use a group-perspective in general, but not when it comes to untaxed reserves. If the untaxed reserves, contrary to the group perspective, are treated as liabilities (untaxed reserves) in the merger, the distributable capital would decrease with the same amount as the equity part of the untaxed reserves.
3. Lewén (1995)	The untaxed reserves should be moved directly to the untaxed reserves in the parent company.	The untaxed reserves where posted as liabilities in the subsidiary. Thus, they can not affect the income of the parent company.
4. Ljungberg & Phillips (1997)	Agree with Lewén.	Agree with Lewén.

Table 7 Previous literature, Untaxed reserves

5.1.5 5. Annual report/accounts

This item concerns whether the subsidiary should set up an annual financial statement or not. However, this question is not widely discussed in the literature. Many authorities, though, had opinions on BFN's solution to the problem, which they reflected in their comments to the referral of BFNAR 1999:1. Most experts argue that, according to present legislation, there is no rule that obliges the subsidiary to set up an annual financial statement. All financial transactions should be posted in the subsidiary until the day of the merger. SOU 1949:56, p 57 raises the question if the legislation in ABL should be changed, so that subsidiaries would be obliged to set up balance sheet and in income statement per the day of the merger. Such changes have, however not been realized.

Smiciklas (1993) propose that, if the merger takes place during on-going financial year, the subsidiary should shorten the financial year and set up an annual report per the day of merger.

Heinestam (1999) argues that the legislation is insufficient, and that subsidiaries should be obliged to disclose their closed accounts. Companies have the possibility to hide gross profits, depreciations etc. in an acquired company. This possibility would render a weakening of the creditor protection.

5.1.6 6. Calculation time

This item is not debated in the literature.

5.1.7 7. Same year

This item is not debated in the literature.

5.2 Referral comments

In connection to the development of BFNAR 1999:1, BFN remitted a proposal of the recommendation to 47 authorities (attached in appendix 5), with the objective of receiving external opinions about the proposal. BFN received many comments and suggestions from many authorities, and due to these comments, they also made several changes before they published the final version of the recommendation. These changes were, however, mostly related to the formulation or design of the recommendation and not to fundamental accounting techniques and perspectives. BFN did, indeed, receive many critical comments concerning accounting technical questions that are interesting for this thesis. Many of these are not thoroughly treated in the literature within accounting applied to mergers. These discussions will be described below.

In the summary to the referral comments, only negative comments or suggestions are described. Positive comments signify that the recommendation is accepted within the specific area. The same assumption must be taken when no comments are given at all (except for cases where the authority does not comment because of lacking knowledge within the area). Positive comments are, in any case, irrelevant since they will not provide more information in order to fulfill the purpose of the thesis.

Total number of authorities who received the referral					47
No. of authorities with sufficient knowledge within the area					38
No. of authorities who left comments					30
No. of strongly critical authorities					2
No. of authorities who commented tax issues					2
No. of authorities who negatively commented issues related to this thesis:					12
1. Valuation	2. Merger difference	3. Equity Capital	4. Untaxed reserves	5. Annual rep/acc Info. perspective	
3	3	0	1	7	
5. Annual rep/acc Discharge perspective	5. Annual rep/acc Criminality perspective	5. Annual rep/acc Legislation perspective	6. Calculation time	7. Same year	
5	2	3	2	3	

Table 8 Number of comments on the referral

17 of the authorities did not offer any comment to the proposal. Nine of them did lack knowledge within the area in question. Remaining authorities did not leave comments since they, on the whole, concurred with the proposal.

Note that the main issues brought up in the literature are not frequently commented. The most discussed question is instead the question of current recordings of transactions, where the authorities, from different aspects question if the subsidiary should not set up an annual report/account at the time of the merger. The discussion in the referral comments will be presented below.

5.2.1 1. Valuation

School of economics in Stockholm: School of economics in Stockholm remains doubtful towards the group perspective that BFN advocates. It argues that consolidated financial accounting in reality is based on fiction. The group is supposed to be accounted as if the parent company directly holds the assets and liabilities of the subsidiary. This is not the case in reality. However, BFN is trying to transform this fictions and conceptions into a norm for how to account mergers. School of economics in Stockholm believes that the recommendation will imply that new artificial assumptions are brought into the accounting, which sooner or later will lead to complications. In conclusion, the university suggests that BFN closely consider alternative solutions to their recommendation.

School of economics in Gothenburg: The University support both the group-value-method and the book value method (see below “Merger difference)

*Byggentreprenörerna*¹³: Byggentreprenörerna strongly question the group-value-method and argues that more recommendations than already exists in accepted consolidated financial statements rules are not necessary. The recommendation is defective and focuses on valuation questions, rather than questions that could be useful for companies when they confront accounting problems in relation to a merger. The authority refers to the concept of materiality, which implies that accounting information should be constituted important and necessary data.

5.2.2 2. Merger difference

School of economics in Gothenburg: BFN’s definition of the merger difference is, according to the University, only satisfactory for posting it in the consolidated financial statement. When posting it in the parent company, however, the University asserts that the merger difference should be defined as “the difference between the book value of the parent company’s shares in the subsidiary and the value of the equity capital in the subsidiary”. This definition corresponds to the book-value-method, and in that case the merger difference should be posted in the income statement of the parent company.

*SAF*¹⁴ and *Federation of Swedish industries*¹⁵: According to BFN, the merger difference should be posted directly in the parent company’s equity capital. The authorities question if it cannot be regarded as a profit distribution from the subsidiary. That is, post it in the income statement. SAF’s opinion corresponds to Nihlén and Nilsson (1999).

School of economics in Stockholm: School of economics in Stockholm question if the merger difference should be posted directly in the parent company’s equity capital. Instead they propose a transfer to the income statement of the parent company (the university base this opinion on the argumentation mentioned above under *valuation*)

¹³ The construction entrepreneurs

¹⁴ The Swedish Employers' Confederation (Svenska arbetsgivareföreningen)

¹⁵ Industriförbundet

5.2.3 3. Equity capital

No negative comments are offered concerning this item.

5.2.4 4. Untaxed reserves

South Swedish chamber of commerce and industry: The authority considers the calculation as follows: The parent company's asset item is substituted by the assets and liabilities in the subsidiary. However, they are not substituted by the untaxed reserves, since they actually are realized, yet not taxed, results in the subsidiary. If the untaxed reserves are included in the merger difference, the merger difference will result misleading (this opinion corresponds to Nihlén and Nilsson's (1999) view on untaxed reserves).

5.2.5 5. Annual report/accounts, information perspective

*FAR*¹⁶: According to BFNAR 1999:1, annual report/accounts should not be set up for the last financial year of the subsidiary. Far question if this should be unconditional rule. FAR especially refer to the situation when the subsidiary runs an entirely different business compared to the parent company. Here FAR propose a separate accounting with elements of the subsidiary's business in the parent company's accounting.

South Swedish chamber of commerce and industry: The authority argues that subsidiaries should set up an annual account. Control is not obtained only from using general ledger and posting account to account from the subsidiary to the parent company.

School of economics in Gothenburg: The Authority believes that the financial position of the subsidiary should be the base for the accounting of the merger. Consequently, it is appropriate the set up an annual account in the subsidiary at the day of the merger.

Byggtreprenörerna: The authority believes that the accounting in the subsidiary must be performed in a comprehensive way, and in accordance with general and established principles for closing current recordings of transactions. It should, thus, be presupposed that there exists sufficient information regarding financial status and results, at the time of the merger. Thus, annual report/accounts must be set up in the subsidiary.

SAF and Federation of Swedish industries: The organizations reason that, even though ABL does not demand a set up of annual report and annual accounts in the subsidiary at the time of the merger, the account in the subsidiary should be closed in some way, and that this should be expressed in the recommendation.

*PRV*¹⁷: PRV disagree with BFN, it has noticed that there exists a general interest from external interested parties, for instance unions and employees, to take part of dissolved companies' final accounts. The fundamental attitude within PRV has always been that an annual report should be set up in connection to a merger.

University of Borås: The University has the same opinion as PRV. It points out that it does exist interested parties that have use of information from annual report/accounts in a dissolved company.

¹⁶ The Institute for the Accounting Profession in Sweden (Föreningen Auktoriserade revisorer)

¹⁷ The Swedish Patent and Registration Office (Patent och Registreringsverket)

5.2.6 5. Annual report/accounts, discharge perspective

FAR: If the subsidiary does not set up an annual report for the last financial year, the managing director and board of directors will not be object for treatment of discharge questions. In practice this will imply that these persons will end up in a disadvantageous situation, since the prescription period, as a consequence will be prolonged. When a liquidation takes place, a special accounting report should be set up, and examined by an auditor and be part of a shareholders meeting. FAR find it difficult to see any rational reason why corresponding procedure should not be applicable for mergers.

*Administrative court of appeal in Gothenburg*¹⁸: Also the authority concurs with FAR. It questions if annual report/accounts should not be set up in the subsidiary at the merger. Otherwise the general prescription period would come into force since the question of discharge for the managing director and board of directors has not been treated in formal order.

PRV: The discharge problem is also brought up by PRV. This authority points out that the board members in the subsidiary are not necessarily the same persons as the board members in the parent company. Thus they cannot be granted discharge in the parent company at the end of the financial year. They argue that the question is complicated and that it should therefore, in some way, be illuminated in the recommendation. However, BFN should not solve the discharge problem since it is rather a question for the legislators.

*The Swedish Bar Association*¹⁹: The authority also brings up the discharge question. Since the question of annual report (according to BFN, the subsidiary should not set up any annual report for the last financial year) raises the problem of discharge, BFN should not make this rule universal. It holds that this issue treats complicated civil law questions which BFN cannot prevail. Therefore, in this matter, BFN should make clear that this is only a recommendation.

Byggtreprenörerna: The authority is determined regarding the question concerning discharge. Annual report/accounts should be set up, in order to create conditions for decision of discharge for the subsidiary's managing director and board of directors. Byggtreprenörerna continue by asserting that if present legislation is as defective as BFN claims, they find it natural that the legislation is changed. Therefore they express their expectation that BFN will elaborate a proposal for necessary alterations in the law.

5.2.7 5. Annual report/accounts, criminality perspective

This part will not be brought up in the empirical study. However, the importance of this problem require a discussion in this chapter.

*EBM*²⁰: EBM stresses that it is occurring that people use mergers as a component in aggravated economic criminality. EBM refers to the fact that it is legal to transfer accounting from company to company by means of mergers, without requirements for external information. That is, one company is merged into another company which is merged into another company etc. By continuing this procedure, business owners can hide their accounts in eternity. Therefore EBM would endorse a regulation that implies some kind of report

¹⁸ Kammarrätten i Göteborg

¹⁹ Advokatsamfundet

²⁰ The Swedish National Economic Crimes Bureau (Ekobrottsmyndigheten)

that describe the result and financial status of the subsidiary per the day of the merger. EBM questions, however, if BFN has the authority to regulate this issue in their recommendation, and refer to the fact that changes in the legislation might be necessary to solve the problem.

PRV: PRV concur with EBM about the problem with economical criminality. They refer to the creation of merger chains, in accordance with EBM, and mergers where a great number of subsidiaries are included. Thus, also PRV call for a rule that implies an annual report of the subsidiary per the day of the merger.

5.2.8 5. Annual report/accounts, legislation perspective

PRV: PRV asserts that it, in opposite to BFN's pronouncement, already exists a duty for dissolved companies to set up annual reports and accounts. PRV refers to former BFL 11, 11a § that states that current recordings of transactions each year should be closed with an annual report. The same regulations can be found in ÅRL 2:1 and in ABL 11:1 before the 1 of January 1996. According to PRV, these regulations are applicable to the financial year when a company is dissolved (by means of a merger). Thus, PRV holds that dissolved companies are not excluded from the rule concerning the duty of setting up annual report.

*FI*²¹: FI asserts, in conformity with PRV, that dissolved companies are obliged to set up an annual report according to BFL 11 § and ÅRL 2:1. BFN's argumentation, that a dissolved company does not have any administration, is not significant since the duty to set up annual report and accounts are transferred to the parent company.

University of Borås: The University brings up the same discussion as previous authorities. In addition they mention BFL 12 §.

5.2.9 6. Time of calculation

School of economics in Gothenburg: The authority reasons that the merger difference should be assigned to the day of the merger, and not the entering of the subsidiary's last financial year. The reason is that the merger difference should, among other things, describe what the results in the subsidiary from the time of the acquisition. Thus, the description will not be complete if the result from the last financial year is not included. This implies, though, that the merger difference must be posted in the parent company's income statement and that the subsidiary sets up income statement and balance sheet per the day of the merger.

*South Swedish chamber of commerce and industry*²²: The authority holds, in correspondence to the School of economics in Gothenburg, that the merger difference can be assigned to day of the merger, if the subsidiary sets up an annual account for the same day. The authority believes that the solution that BFN support (i.e. the last financial year, the subsidiary should post the current recording of transactions in the parent company until the day of the merger) is complicated and should be removed.

²¹ The Swedish Financial Supervisory Authority (Finansinspektionen)

²² Sydsvenska Handelskammaren

5.2.10 7. Same year

FAR: When the subsidiary is acquired the same year as the merger takes place, transactions in the subsidiary should, according to BFNAR 1999:1 only be accounted in the parent company from the day of acquirement. FAR is critical to the fact that annual report/accounts, in such a situation, should not be set up from the start of the financial year to the acquisition of the subsidiary, referring to the fact that important accounting information may be missed. They also propose an alternative, where the results from the subsidiary are included from the beginning of the financial year.

South Swedish chamber of commerce and industry: The authority also brings up the problem that FAR discussed above concerning subsidiaries acquired the same year as the merger takes place.

*LRF*²³: Also LRF criticizes that BFN's attitude towards mergers in groups where the subsidiary is acquired the same year. The recommendation should, according to LRF, indirectly signify that the financial year, in practice will incorrectly end in connection the acquirement of the subsidiary.

5.2.11 Critical authorities

School of economics in Stockholm: The University strongly question the use of the group-value-method since it will imply that new artificial assumptions are brought into the accounting, which sooner or later will lead to complications. In conclusion, the university suggests that BFN closely considers alternative solutions to their recommendation.

Byggentreprenörerna: Also Byggentreprenörerna strongly question the group-value-method. Further they argue the already existing legislation and recommendations (former RR 1:96, present RR 1:00) that regulate merges are sufficient. More guidance whitin the area is, thus, unnecessary.

5.2.12 Tax related issues

Byggentreprenörerna and FAR brought up some interesting issues concerning the relation between accounting and taxation. Byggentreprenörerna criticized the group-value-method and argued that it could lead to negative fiscal consequences in certain situations. This thesis is, however, focused only on civil law questions related to 14:22-mergers. The fiscal aspects of the problem are thus excluded.

²³ Swedish association of agriculturists (Lantbrukarnas Riksförbund)

1. Valuation	2. Merger difference	3. Equity capital 4. Untaxed reserves	5. Annual rep/acc. Information perspective
Rules for estimation are not necessary. Already existing recommendations (RR 1:96) provides sufficient regulation.	To reach continuity, the merger-difference should be posted in the income statement of the parent company and in the balance sheet of the group.	<i>Equity capital:</i> is not discussed in the referral comments	Annual report/accounts in the dissolved company will provide important information to interested parties.
The group-value-method offers a fictive picture of the accounts.		<i>Untaxed-reserves:</i> Through the merger, the parent company takes over the assets and liabilities of the subsidiary, not the un-taxed reserves. Therefore, untaxed reserves should not be part of the merger-difference	
The book-value-method must be used in the parent company in order to reach continuity.	The merger difference should be posted in the income statements, since it can be regarded as an equivalent to a profit distribution to the parent company.		
5. Annual rep/acc. Discharge perspective	5. Annual rep/acc. Criminality perspective Legislation perspective	6. Time of calculation	7. Same year
If annual report/accounts are not set up in the dissolved company, the management of the subsidiary will not have the possibility to be granted discharge. A negative consequence for the management will be prolonged period of prescription.	If annual report/accounts are not set up in the dissolved company, accounting information can be hidden by using different techniques. These techniques can be used for criminal purposes.	The values at the day of the merger, and not the entering of the last financial year should be used when calculating the merger-difference. Otherwise the description off the merger will be incorrect.	If the subsidiary is acquired the same year as the merger, its transactions should be posted in the parent company from the entering of the financial year, or annual report/accounts for the subsidiary should be set up.
	It can be interpreted in the legislation that even companies dissolved by means of mergers should set up annual report/accounts. BFL 11,12 §§, ABL 11:1 ÅRL 2:1	The accounting would get more complicated if the values at the entering of the financial year are used when calculating the merger difference.	
Strongly critical comments		Tax issues	
Two authorities have clearly expressed their skepticism and recommended that BFN should carefully consider revising its fundamental perspective. Both authorities refer the choice of the group-value-method, and one authority also questions the recommendation's legitimacy and argues that sufficient legislation and guidance already exists.		Two authorities mentioned a few interesting fiscal issues. Some where directly connected to the group-value-method. This thesis is, however, focused only on civil law questions related to 14:22-mergers. The fiscal aspects of the problem are thus excluded.	

Table 9 Summary of referral comments

5.3 Summary of previous studies

In this section, previous literature (4.1.1) and referral comments (4.1.2) are summarized. The summary will bring up the most discussed accounting methods related to 14:22 mergers. Further, possible negative consequences related to each method is described. These consequences are based on opinions from different authors. The complete summary is represented in the two tables below. The cells marked in grey illustrates the methods (alternatives) that BFN support, and will be the foundation for the empirical research in this study. The left column “Problem” informs from where the information is obtained, i.e. previous literature (4.1.1) or referral comments (4.1.2).

Problem	Accounting alternatives	Possible negative consequences
1. Valuation <u>Literature & Referral com.</u>	Group Value Method*	The consolidated financial statements is fictive. If the subsidiary is valued according to the values in the group, the financial description of the parent company will be false. The method violates the valuation rules in ÅRL
	Book-value-method	Continuity in the group will not be reached if the book-value-method is used.
	Market-value-method	Continuity in the group will not be reached if book-value-method is used. The method violates the valuation rules in ÅRL
2. Merger-difference <u>Literature & Referral com.</u>	Directly in the equity of the parent company as well as in the group	If the merger-difference is posted directly in the equity of the parent company, the principle of congruity is violated.
	In the income statement of the parent company and directly in the equity of the group	The merger has not caused any changes in the income of the group. Therefore the accounting would give a false financial description of the parent company if the merger difference was posted in the income statement.
	In the income statement of the parent company as well as in the group	Equal to above mentioned alternative
3. Equity capital <u>Literature</u>	The entire merger-difference should, with some limitations, be posted in the non restricted equity of the parent company	The creditors of primarily the parent company can get deteriorated security for their receivables compared to before the merger
	The entire merger-difference should, within the frame of legislation be posted in non-restricted equity of the parent company	The creditors of primarily the parent company can get strongly deteriorated security for their receivables compared to before the merger
	The parent company should not have more non-restricted equity before the merger as after	The parent company will end up in a situation where the restricted equity is unnecessary large.
* The cells marked in grey illustrates the methods (alternatives) that BFN support		

Table 10 Summary of previous studies 1

Problem	Accounting alternatives	Possible consequences
4. Untaxed reserves <u>Literature & Referral com.</u>	Post it directly in the balance sheet of the parent company as a liability.	Untaxed reserves earned between the acquisition and the merger is the outcome of profits in the subsidiary during this period. If they are posted directly in the balance sheet of the parent company, the merger difference will incorrectly decrease and a false financial description of the company will be given. Distributable capital will reduce with the same amount as the equity part of the untaxed reserve.
	Post it in the income statement via balance-sheet allocations of the parent company	Distributable capital will reduce with the same amount as the equity part of the untaxed reserve.
	Divide the untaxed reserves between equity and deferred tax liabilities	This solution seems unsuitable since untaxed reserves only are divided between equity and deferred tax liabilities in groups. It against company law and tax law to treat untaxed reserves similarly in legal persons
5. Annual report/accounts <u>Literature & Referral com.</u>	Do not set up annual report/accounts	Without annual report/accounts, the interested parties of the subsidiary will risk missing important information. Without annual report/accounts, the director and board of directors of the subsidiary can not be granted discharge Without annual report/accounts, companies can use special methods to commit economical crimes (is not part of the empirical study). It is regulated by legislation that annual report/accounts should be set up in the subsidiary at the time of the merger.
	Set up annual report/accounts	This would imply more work for the companies
6. Time of calculation <u>Referral com.</u>	The values at the time of the entering of the last financial year should be used when calculating the merger-difference.	The financial description of the parent company will be false if the entering of the last financial year is used.
	The values of the assets and liabilities at the time of the merger should be used when calculating the merger-difference	No comments
7. Same year <u>Referral com.</u>	The Incomes of the subsidiary should be posted in the parent company from the time of the acquisition	The financial description of the parent company will be false if the entering of the last financial year is used. Interested parties will miss important information
	The incomes of the subsidiary should be posted in the parent company from the entering of the financial year/ or an annual report should be set up from the time between the entering of the financial year and the acquisition	No comments

Table 11 Summary of previous studies 2

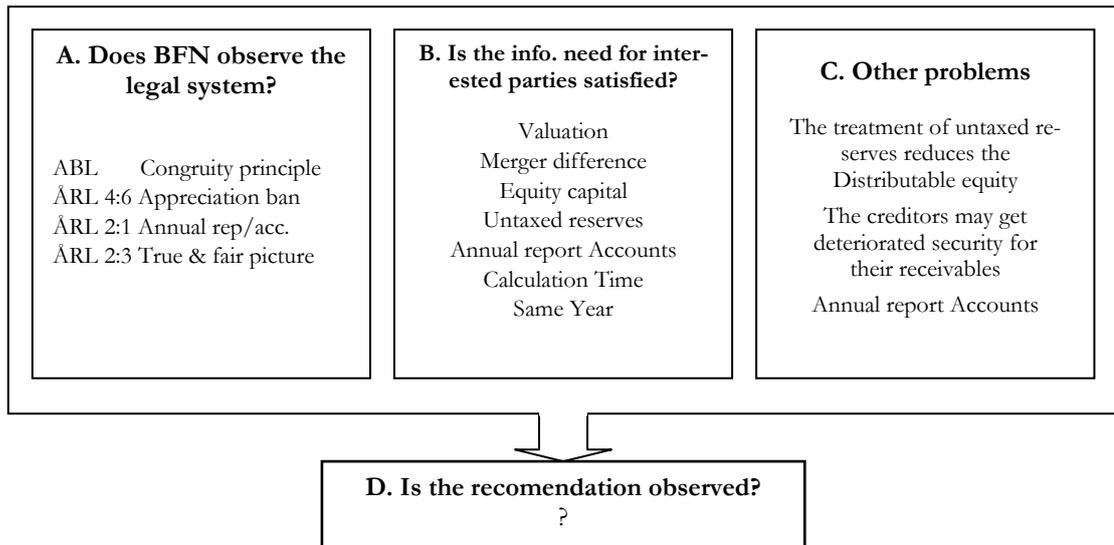


Figure 8 Possible problems related to BFNAR 1999:1

6 Empirical findings and analysis

In this chapter the results from the empirical study is described and then analyzed.. The main the empirical study treats seven areas. Each area is described, in tables, in one quantitative and one qualitative part followed by an analysis.

The multi choice questions consist of two parts. Firstly, if the recommendation is observed within the specific area discussed. Secondly, questions designed as statements, critical to BFNAR 1999:1, to which the respondent can agree or disagree. If the respondent agree with a statement he must declare if he consider this to be a significant problem, i.e. if it in someway will cause negative effects on parties concerned. Each answer alternative is followed by the number and percentage of respondents that chose the alternative. Some answers are abbreviations and will, thus, be explained below:

No com. = No comments

Agree NSP = I agree, but I do not consider this a significant problem

Agree SP = I agree, and I do consider this a significant problem

The comments are directly quoted from the respondents. Only comments that are considered significant by the author are described. Above or beside each comment, some information is attached. The first figure is the number of the comment. The following information is the respondents answer to the questions within the specific area. Some answers are abbreviations and will, thus, be explained below:

No c. = No comments

Ansp = I agree, but I do not consider this a significant problem

Asp = I agree, and I do consider this a significant problem

33 out of 51 auditors responded the survey. Two of them had no experience of mergers after the coming into force of BFNAR 1999:1 and were, thus excluded from the survey. The respondents had different experience of accounting applied to mergers, which is illustrated below. No direct difference in their answers could be detected, except within one area: All the respondents that argued that the recommendation is not observed within as specific area, had experience of five or more mergers after the coming into force of BFNAR 1999:1.

Number of realized mergers	Experience before BFNAR 1999:1	Experience after BFNAR 1999:1
0	4 Respondents	0 Respondents
1	0 “	4 “
2	2 “	2 “
3	4 “	1 “
4	4 “	6 “
5 or more	17 “	18 “

Table 12 The respondents experience of mergers

6.2 2. Merger difference (BFNAR 1999:1 item 18)

According to BFNAR 1999:1, the merger-difference shall be posted directly in the equity of the parent company. Is the recommendation consistently observed on this item? (31/31)			If the merger difference is posted directly in the equity of the parent company, the principle of congruity is violated and the description of the financial situation will become misleading. (31/31)		
Yes	28	90%	Do not agree	25	81%
No	1	3%	No Com.	1	3%
No com.	2	7%	Agree, NSP	5	16%
			Agree, SP	0	0%

1		No	Dna	2		Yes	Ansp
Sometimes a silent set-off against an incorrect surplus value can be realized. It would have the same effect as if write-down in the subsidiary is done before the merger.				It is important to describe the effects of the merger in the notes, especially in the equity capital.			
3		Yes	Dna	4		Yes	Dna
The note for the equity capital and deferred tax is very informative. I argue that the it is more correct to post the merger-difference directly in the parent company's equity. If it is posted over the income statement, the results of the period will be disturbed which is not correct according to my opinion.				Open accounting is applied, which implies that that the procedure should appear in both notes for equity capital and additional information.			

Table 14 Empirical findings, merger difference

Analysis

Only one of the respondents states that item 18 is not observed, and at least 90% of the respondents observe the item. However the only “negative” respondent refers to situations where the merger-difference is reduced by means of a silent set-off. Thus, he does not state that the merger-difference sometimes is posted in the income statement. Consequently, 100% of the respondents believe that the merger-difference is never posted in the income statement of the parent company.

When regarding the literature within accounting applied to mergers, it is evident that the majority of the quoted authors supported the method of posting the merger-difference in the income statement, even though they, in general, supported a group perspective. This can be considered rather strange since the merger from a group perspective only redistributes balances without actually affecting the results of the year. The authors, however, questioned how a contribution to the (non-restricted) equity in the parent company could not be considered a profit.

81 % of the respondents support BFN’s view, and 16 % support the reasoning of the great part of the authors. Thus, in accordance with the group perspective, 81 % of the respondents do not consider the merger-difference to be equivalent to a profit/loss. The comments 2, 3 and 4 illustrate that the respondents emphasize the importance of explaining the increment/decline of the equity capital (without changes in the income statements) in both notes and additional information. None of the respondents who disagreed with BFN considered BFN’s method to imply any significant problems. Probably they concur with respondent 2 and reason that, even if it is misleading to post the merger-difference directly in the balance sheet, interested parties will instead gain sufficient information needed from notes for equity capital.

6.3 3. Equity capital (BFNAR 1999:1 item 19)

Is the recommendation consistently observed regarding the distribution of the merger difference between restricted and non-restricted equity? (31/31)			BFN is too tolerant concerning the creditors protection. A merger should never be able to increase the distribution capacity. (31/31)			BFN is too strict concerning the creditors protection. The distribution capacity should not be regulated in BFNAR 1999:1. Sufficient protection for creditors already exists in the legislation. (31/31)		
Yes	23	74%	Do not agree	18	58%	Do not agree	8	26%
No	1	3%	No Com.	5	16%	No Com.	12	39%
No com.	7	23%	Agree, NSP	8	26%	Agree, NSP	11	35%
			Agree, SP	0	0%	Agree, SP	0	0%

1	Yes	Dna	Ansp	2	Yes	Dna	Ansp
Earned profits after the acquisition will be non-restricted equity in the parent company if the consolidated financial statement is correctly executed and the depreciation of group surplus values is sufficient.				My experience primarily concerns small mergers which normally do not involve appreciations, internal profits etc. General rules concerning "prudence", incorrect valuation, etc, should be sufficient.			

Table 15 Empirical findings, restricted equity

Analysis

Only one respondent states that the recommendation is not observed regarding distribution of the merger difference in the parent company's equity. Unfortunately the respondent did not complement his answer with any comment. However, we can conclude that the recommendation is not consistently observed on this area, even though such a procedure seems to be uncommon.

The opinions of the respondents seem to reflect the literature, some argue that BFN is too tolerant (26 %), some argue that BFN is too strict (35 %) and some argue that BFN is well balanced or does not criticize BFN's solution (39 %). The respondents that argue for more restricted rules did not comment their answers. However, I believe it to be likely that these auditors have the same opinions as Martin Smiciklas (1993), the non-restricted equity in the parent company after the merger should not be larger than the non-restricted in the group before the merger. I believe 26 % to be a high number of respondents who reason that BFN is too tolerant, and I find it strange. The only explanation I can find is that Swedish company law is strongly focused on the creditors protection (Sweden is one of few countries who regulates the equity of the consolidated balance sheet) and that many auditors are strongly affected by this tradition.

Respondent 1 and 2 state that BFN is too strict within this area, arguing that existing legislation and principles are sufficient. Respondent 1 argues that if the accounting is executed correctly, and if group surplus values are eliminated against the non-restricted equity in the subsidiary the merger difference will automatically become non-restricted. I find this argument rather strange since it implies that all the equity in the consolidated financial statement between the acquisition and the merger will not necessarily have to be non-restricted.

No respondent that believed that BFN is too strict commented how to handle appreciations in the subsidiary after the acquisition. However I presuppose that they concur with BFN about transferring the appreciated values to an appreciation reserve, but consider the recommendation unnecessary referring to already existing legislation in ÅRL 4:6. I find it hard to believe that any auditor would support making an appreciation distributable.

It seems that the recommendation is well balanced on this item. The majority of the respondents support it, and the remaining respondents consider it either too tolerant, or too strict.

6.4 4. Untaxed reserves (BFNAR 1999:1 item 13)

According to BFNAR 1999:1, untaxed reserves in the subsidiary shall be directly posted as untaxed reserves in the balance sheet of the parent company. Is the recommendation consistently observed on this item? (31/31)			If the untaxed reserves are directly posted in the equity, the merger difference is reduced by the same amount. This is wrong since (72% of) the earned untaxed reserves consist of earned capital during the time between the acquisition and the merger. (31/31)		
Yes	29	94%	Do not agree	13	42%
No	1	3%	No Com.	1	3%
No com.	1	3%	Agree, NSP	10	32%
			Agree, SP	7	23%

1	Yes	Ansp	2	Yes	Dna	3	Yes	Dna
This can be treated by paying the deferred tax and convert the untaxed reserve into a profit (However, this will affect the liquidity etc.)			No one can say that 72% (28% are deferred taxes) will become equity capital since future losses can require a reversal without remissions.			As long as we have accounting of untaxed reserves in legal persons, I believe that the post true and fair picture post it as untaxed reserves.		
4	Yes	Asp	5	Yes	Ansp			
It is a strange phenomenon since the untaxed reserves automatically will reduce the merger-difference.			Before the merger-decision, one must analyze the effects the merger will cause. Distribution limitations is only one problem.					

Table 16 Empirical findings, untaxed reserves

Analysis

One respondent states that item 13 is not observed. The same respondent believes that BFN's solution in this question is deficient and implies significant problems. It should be mentioned that, despite of the fact that no less than 94 % the respondents observe the item, 55 % of the respondents are critical to the same, and 23 % of these, consider the item a significant problem.

As can be seen from the tables, many of the respondents are critical or strongly critical to item 13. BFN's solution implies that the untaxed reserves, even though they are earned capital, will reduce the merger-difference, and the distribution capacity, for the overtaking company. However, the same effect would appear if the untaxed reserves were posted over the income statement. The profit of the year after balance-sheet allocations, and consequently, the distribution capacity would decrease.

The critical respondents, thus agree with Löfgren and Haglund (1996) and reason that the group perspective should be observed also regarding this item, in order to achieve a true and fair picture of the accounting and, and maintain the same level of distributable equity as existed in the consolidated balance sheet. Thus, the untaxed reserves should be distributed between equity and deferred tax liabilities, 72 and 28 % respectively. Respondent 4, reflect this opinion by questioning logic in reducing the merger difference by means of untaxed reserves.

Respondent 5, who finds BFN's solution questionable, does not however, consider it to be a significant problem, arguing that distribution limitations is only one of several questions that a company must analyze before making the decision to realize a merger. It seems that he considers the merger a complex procedure where the handling of untaxed reserves is only a minor part of all considerations that have to be taken.

Respondent 1, adds that this problem is solved relatively easy, by dissolving the untaxed reserves before the merger. That is, pay the deferred tax and convert the equity part into a profit. The distributable equity will, thus not decrease. However, the liquidity will, as a consequence be affected. The solution that respondent 1 suggests, is evidently an option for consideration. However, one could question if it is reasonable that a company should dissolve its untaxed reserves just because of a merger. Company or tax law do not require such a solution. And such a solution should only regarded as an option.

Respondent 2, reason that the equity part of untaxed reserves "is not necessary equity capital" since future losses can require a reversal without remissions. This argumentation is practicable and therefore valid, however, only for companies who report losses.

Respondent 3, agree with the recommendation and reason that “As long as we have accounting of untaxed reserves in legal persons, I believe that the post true and fair picture post it as untaxed reserves”. Respondent 3 seems to agree with Lewén (1995) by indirectly referring to Swedish company and tax law concerning accounting of untaxed reserves.

6.5 5. Annual report/accounts (BFNAR 1999:1 item 14)

According to BFNAR 1999:1, annual report/accounts shall not be set up in the subsidiary at the time of the merger. Is the recommendation consistently observed on this item? (31/31)			Annual report/accounts in the dissolving subsidiary should be set up since it is of great importance for external interested parties to be able to take part of an annual report/ accounts in the dissolving subsidiary (29/31)			Annual report/accounts in the dissolving subsidiary should be set up: In order to make it possible for managing director and board of directors to be granted discharge (29/31)		
Yes	28	93%	Yes	9	31%	Yes	4	14%
No	0	0%	No	20	69%	No	21	72%
No com.	1	7%	No com.	0	0%	No com.	4	14%

Annual report/accounts in the dissolving subsidiary should be set up because: In opposite to, the opinion of BFN, subsidiaries that are merged should, according to existing legislation, close the financial year with annual report/accounts. (29/31)				BFN can regulate that annual report/accounts should be set up in the subsidiary in a merger situation. Consequently, this is not a question that necessarily must be handled by the legislator. (31/31)			
Yes	3	10%		Do not agree	10	32%	
No	17	59%		Agree	14	45%	
No com.	9	31%		No com.	7	23%	

1	I believe that it is important with an annual account report in the dissolving company. Now, auditing+ discharge is transferred to the parent company. It can be different board members in the parent company, thus, I do not support BFN in this question.	2	If a discharge question, contrary to expectation, would be present in the subsidiary, the situation must be handled thereafter. In such a case, which I cannot directly visualize, discharge must be rejected.	3	An annual report is necessary, among other things to be able to provide the additional information that is required according to BFN. A merger is a comparison disturbing event that must be illustrated somehow.
Yes		Yes		Yes	
Yes		No		Yes	
No c.		No		No	
No c.		No		No	
Agree		Dna		Agree	

Table 17 Empirical findings, annual report/accounts

Analysis

0% of the respondents states that the recommendation is not consistently observed. It can be assumed that annual report/accounts sometimes in exceptional cases are set up in order to gain information in order to be able to provide additional information according to item 23, or if the discharge question have been brought up for discussion. Hitherto, at a minimum 93 % of the respondents observe the item while remaining 7 % leave no comments.

Regarding this item, BFN received a lot criticism from many authorities in the referral comments to the proposal to the recommendation. However, BFN did not respond to the criticism and decided to adhere to its decision, which implies that the dissolving company shall not set up annual report/accounts for the year of the merger.

Based on the massive criticism BFN received in their proposal, one could expect a high level of disapproval from the accountants as well. However, even though there exists criticism, the majority of the respondents agree with the recommendation.

31% of the respondents argue that annual report/accounts in the subsidiary should be set up. All of these respondents argue that annual report/accounts in the dissolving company is necessary in order to be able to provide important accounting information to interested parties.

Respondent 3 emphasizes the importance of setting up annual report/accounts in the dissolving company. Not only for providing necessary information to interested parties, but also to be able to obtain the information needed in order to provide the additional information that BFN requires in item 23.

14 % of the respondents consider the discharge question a problem. Respondent 1 reason that the discharge question is problematic in cases where board members of the dissolving company do not take part of the board of directors in the parent company. Respondent 2, on the other hand, does not consider the discharge question to be a problem and, in any case, not a question that should be regulated by BFN. He argues that if a discharge question would emerge (i.e., director or board members have not acted in accordance with current rules), this would not be neglected, but handled in accordance with the directions of the legislation. Consequently, the respondent's opinion implies a side-effect which he does not mention, the situation for board members of the dissolving company is deteriorated, since they can not be granted discharge, the prescription time is prolonged.

10 % of the respondents argue that BFN violates the legislation concerning above mentioned problem. This reflects, to some degree the opinions in the referral comments to the recommendation. In opposite, a clear majority of the respondents (59 %) believe BFN's solution is in accordance with the legislation.

45 % of the respondents believe that BFN can regulate the item in question and 32 % believe that this is a question for the legislator. The difference is small and not convincing. Based on the answers from the respondents, it seems that this item is still open for discussion.

6.6 6. Calculation time (BFNAR 1999:1 item 17)

According to BFNAR 1999:1, the values at the opening of the last financial year shall be used when calculating the merger difference. Is the recommendation consistently observed on this item? <p style="text-align: right;">(31/31)</p>			If the values at the opening of the financial year is used when calculating the merger-difference, the description of the financial situation becomes unclear, since the parent company must post the business transactions of the financial year in its own income statement. (31/31)		
Yes	28	90%	Do not agree	20	65%
No	2	7%	No Com.	1	3%
No com.	1	3%	Agree, NSP	10	32%
			Agree, SP	0	0%

1		Yes	Ansp	2		Yes	Dna
The problem is that there exists a result from the subsidiary to handle. However, seen from a group perspective, there exists no problem.				This part is normally equal to: the values on the day of the merger excluding the profit/loss of the year.			
3		No	Ansp	4		Yes	Ansp
Practically, it can be handled differently depending on the time of the year when the merger takes place. Sometimes the day of the merger is more appropriate to use. Additional information should be provided.				It is impossible to aim for absolute fairness, and as long as nothing extraordinary happens, I maintain that the accounting will not be unclear. The requirement for true and fair picture is, however, always existing and if the accounting is considered unclear, the problem should be explained in notes.			

Analysis

Table 18 Empirical findings Calculation time

Only 2 % of the respondents state that item 17 is not observed. Respondent 3 believe that it sometimes is more appropriate to violate the item depending on what time of the year the merger takes place.

32 % of the respondents do not agree with BFN. Respondent 1 argues that it is strange that business transactions that the subsidiary executes should be posted in the income statement of the parent company. If the parent company and the subsidiary are considered to be two different companies, this would not provide a true and fair picture of the accounting. Probably the 32 % of the respondents have the same opinion: Even if

the parent company and subsidiary are considered to be only one entity in the consolidated financial statements, the parent company and the subsidiary are still (in reality) two different companies until the day of the merger.

However, respondent 1, reasons that BFN 1999:1 is based on the group perspective, and from a group perspective, item 17 does not imply any problems. Respondent 4 argues that problems that appear regarding item 17, are easily solved by illustrating them in notes. In summary, no one considers that BFN's method would imply any significant problems. Respondent 2 believes that BFN's solution is logical. The business transactions concerned are normally what will become profit/loss of the year in the annual accounts. If this part is included in the merger difference, the profit/loss of the subsidiary will not be recorded anywhere, and instead be directly transferred to the balance sheet of the parent company.

6.7 7. Same year (BFNAR 1999:1 item 15)

According to BFNAR 1999:1, If the subsidiary is acquired the same year as the merger takes place, the part that relate to the time before the merger shall not be posted in the income statement of the parent company. Is the recommendation consistently observed on this item? (30/31)				It will provide an unreal/insufficient description of the financial situation if the merger is accounted according to item 15. (30/31)			
Yes	15	50%		Do not agree	17	57%	
No	6	20%		No Com.	10	33%	
No com.	9	30%		Agree, NSP	3	10%	
				Agree, SP	0	0%	

1	No	Ansp	2	No	No com.	3	No	Ansp
Smaller deviations from the recommendation in this matter are acceptable and facilitates the accounting.			This normally depends on what is practically possible, and if the acquired results concern a great deal of the financial year. Open accounting with additional information should, however, always be practiced.			This is a flexible item. I believe that practical adaptation is performed concerning this problem. Normally it is not of significant importance if one or the other alternative is used.		

Table 19 Empirical findings, same year

Analysis

20 % of the respondents states that the recommendation is not consistently observed on item 15. That is, the reason that if the subsidiary is acquired the same year as the merger takes place, the part that relate to the time between the opening of the financial year and the time of the merger can, according to the respondents, be posted in the income statement of the parent company.

10 % of the respondents believe that the business transactions in the subsidiary should be part of the parent company's income statement from the opening of the financial year, and 33 % do not leave any comment concerning the matter. Respondent 1 and 3 who consider BFN's solution to be incorrect, do not, however, regard this as a problem. It seems that the auditors prefer to handle the accounting, on this item, according to what is most practicable, and not according to what is most true and fair. My conclusion is that the fairness of the accounting, according to the respondents, is not considerably affected irrespective of what method is used, since additional information should be practiced (according to BFNAR 1999:1 23d, the missing part of the subsidiary's profit/loss of the year should be provided as additional information). Hence, this item does not seem to imply any problems even though the accounting in this matter is not fully uniform. The importance lies in providing information about the subsidiary's profit/loss of the year. This information will be provided regardless of what method is used.

7 Conclusion

In this chapter the analysis is summarized in a conclusion. Further studies are suggested.

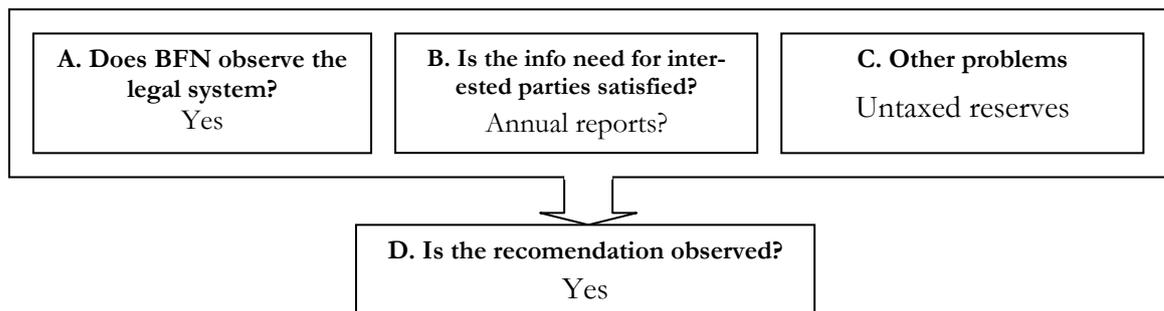


Figure 9 Conclusion

Does BFN observe legal system?

The number of respondents that consider the law to be violated within any of above mentioned areas are few. Thus, based on the opinions of the respondents, BFNAR 1999:1 observes the legal system.

Annual report/accounts in the dissolving company: The most discussed question regarding legal issues is if annual report/accounts should be set up in the dissolving company in relation to a merger. The question is important since it concerns many different issues; interested parties, discharge questions (and criminal aspects which is not treated in the empirical study). It is apparent, however, that the respondents believe that the legislation is observed also on this item.

Is the information need for interested parties satisfied?

Annual report/accounts in the dissolving company: 31 % of the respondents argue that it is necessary to set up annual report/accounts in the dissolving company in order to be able to improve the accounting information provided to interested parties. These respondents are a minority. However, it is remarkable that any auditor considers the recommendation insufficient concerning information to interested parties.

Untaxed reserves: 55% of the respondents are unsatisfied with how BFN handle untaxed reserves. The problem is based on the fact it is considered that BFN's solution unjustifiably reduces the merger difference. It is alarming when more than half of the respondents consider the treatment of an accounting procedure to be incorrect. Even though it does not seem that interested parties will miss information, BFN appears to have a different conception concerning untaxed reserves than the majority of the respondents, which is remarkable.

Also within other areas respondents question the true and fair picture of the accounting of BFNAR 1999:1. For example, concerning *time to use when calculating the merger difference*, the number of critical respondents is relatively high (32%). However, it is still below 50%, and the majority supports the item. Additionally, in none of the cases it seems that the respondents regard these differences of opinion to imply any significant problems. Uncertainties that arise from these applications can always be straightened out and resolved by means of additional information and notes.

Other problems

Untaxed reserves: From a group perspective, BFN's solution for treating untaxed reserves reduces the non-restricted equity in the parent company. The consequence implies that the parent company will have less distributable equity after the merger compared to before. 55 % of the respondents are critical to such a procedure and 23 % consider this a significant problem. BFNAR 1999:1 is based on the group perspective, and it seems irrational to deviate from that perspective only concerning *untaxed reserves*. The creditors' protection in Swedish legislation is already generous towards the creditors. BFN's solution implies additional and probably unnecessary protection for the creditors. It is, however evident, that BFN chose this solution in order to correspond to existing legislation concerning untaxed reserves in legal persons (which do not permit a distribution of the untaxed reserves between equity capital and deferred tax liabilities). It seems that BFN's ambition to strive for correspondence between mergers and legislation concerning untaxed reserves in legal persons. The question is if such a correspondence is necessary, and according to the opinions of the respondents, it is not necessary.

Is the recommendation observed?

Within each item a great majority of the respondents believe that the recommendation is consistently observed. Additionally, in exceptional situations where the recommendation is not observed, it appears that these exceptions are based on practical, rather than ideological reasons where the deviation from the recommendation do not strongly affect the true and fair picture of the accounting. Even regarding the item untaxed reserves, that was strongly criticized by many respondents; the recommendation seems to be observed to a notably high degree, since at least 94 % of the respondents consistently observe the recommendation and only 3 % state that the recommendation is not consistently observed.

It appears that the recommendation is as good as consistently observed within all items discussed in this study. Consequently, it seems that the recommendation already has become general practice regarding accounting applied to 14:22 mergers.

7.1 Final discussion

According to the opinion of those who practically use BFNAR 1999:1, it seems that the recommendation observes the legal system that surrounds it. In general, the recommendation is consistently observed by its users, and it seems that the recommendation already has become general practice regarding accounting applied to 14:22 mergers. Deviations from the recommendation only emerge for practical reasons in cases when true and fair picture of the accounting is not evidently affected by such a procedure. I believe that deviations from recommendation will increase to some degree along time when auditors get more used to the recommendation and increase their ability to determine when deviations are legitimate or not. It seems likely, since the only auditors that violates the recommendation at present, are those who have a lot of experience of mergers.

An important conclusion is that one third of the users, in opposite to BFN, argue that annual report/accounts should be set up in the dissolving company in order to provide interested parties with comprehensive accounting information. Additionally, the issue becomes more delicate since it is related to possible discharge questions and economic crime. This question is important, since accounting law is based on the philosophy that the accounting should provide all necessary accounting information needed to interested parties. Therefore it is alarming when one third of the respondents believe that BFN does not cover the information need concerning this item.

Even though the recommendation is consequently observed on this item, more than half of the users reason that BFN's way of treating untaxed reserves is misleading, violates the group-perspective and decreases the non-restricted equity capital of the company. It is remarkable that BFN issues a recommendation which is not supported by its users. BFN, has chosen this solution in order to correspond to legislation related to legal persons (i.e. not groups). I believe it to be reasonable that BFN revises their recommendation in order to consider a deviation from the legislation concerning this matter. Even though such a procedure does not create an accounting consistent with accounting in legal persons, it observes the group perspective which is the foundation for BFNAR 1999:1. Further, such a procedure does not decrease the creditors protection, it solely maintain it at the same level it had before in the group.

7.2 Further studies

As have been described in this work. Accounting practices becomes constantly more internationalized along with the globalization. Rules for accounting applied to mergers are not up to now not regulated in any international standard with influence on Swedish applications. However, mergers between nations are common, and an internationalization of accounting applied to mergers would facilitate the merger procedure for companies. Thus, I believe that it is only a question of time before accounting applied to merges becomes internationally standardized. It would be interesting to investigate how such internationalization would affect BFNAR 1999:1 and accounting applied to merger in general for Swedish companies.

Through the study it was observed, both in literature and empirical findings that the issue regarding annual report/accounts in the dissolving company is not completely without problems. A suggestion for further studies would, thus, be to investigate possible consequences related to the recommendation and the legislation concerning the accounting information provided in companies dissolved by means of mergers.

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Referral comments

Byggentreprenörerna

Ekombrottsmyndigheten EBM

Finansinspektionen FI

Föreningen auktoriserade revisorer FAR

Handelshögskolan i Stockholm

Handelshögskolan vid göteborgs universitet

Kammarrätten i Göteborg

Lantbrukarnas Riksförbund

Patent- och registreringsverket

Svenska Arbetsgivereföreningen

Sveriges Advokatsamfund

Sveriges Industriförbund

Sydsvenska Industri- och Handelskammaren

Appendix 1: BFNAR 1999:1 (English)

Introduction

1. This recommendation is applicable when a limited company or economic association (parent company) absorb a fully owned limited company (subsidiary)
2. In this recommendation:
 - The transferring company (subsidiary) is* – the fully owned limited company that is dissolved by means of the merger and whose assets and liabilities pass to the parent company
 - The overtaking company is* – the parent company that by means of the merger takes over the assets and liabilities of the transferring company.
 - Day of merger is* – the day on which the Swedish Patent and Registration Office (PRV) registers decision of permission to execute the merger.

Current recording of transactions

3. The transferring company shall currently post business transactions that occur in the company until the day of the merger.
4. The current recording of transactions that for the time until the day of the merger have been posted in the transferring company, will after the merger constitute accounting information both for the transferring and overtaking company.

Valuation

Group-value-method

5. The assets and liabilities that the parent company takes over through the merger shall be valued according to the group-value-method. The method implies that the parent company takes over assets and liabilities to values based on the acquisition analysis that was set up at the time of the acquisition of the transferring company.
6. Even when the overtaking company is excluded from obligation to set up consolidated financial statements, the values are established with guidance of the principles that are the basis for an acquisition analysis. If documentation needed for proceeding a correct acquisition analysis is missing, the values according to item 5 can be established according to what is reasonable with considering the information that the companies possess or without difficulties can procure.
7. The following adjustments and additions to the book values in the transferring company should be executed:
 - a) The value of the fixed assets that are subject for depreciation – including group-based goodwill that is assignable to the transferring company – are adjusted to the according to plan residual values in the consolidated financial statements.
 - b) Deferred tax assignable to group-based adjustments is brought up to the values it has in the consolidated financial statements. The deferred tax is posted as a liability or a reserve and is dissolved concurrently with the decrease of the difference between the accounted and fiscal values.
 - c) The remaining group-based adjustment entries that are assignable to the transferring company are brought up to their values in the consolidated financial statement.

Exceptions for the group-value-method

8. Assets and liabilities, for which the overtaking company apply an other accounting principle than applied in the consolidated financial statements (e.g. leased assets or work-in-process), item 7 is not needed to be applied. Instead, these assets are valued with guidance of the principles that are applied in the accounting of the overtaking company.
9. The regulations in item 5-7 (group-value-method) does not need to be applied if they, all in all, result in an accounting that only in unessential proportions differs from an accounting in which group-based adjustments have and additions have not been executed. Instead, assets and liabilities in the transferring company can be transferred to the overtaking company to its book values.

Moment for valuation

10. Valuation according to item 5-9 shall refer to the conditions of the day of merger.

Other adjustments

11. The transferring company's receivable on a liability in the overtaking company and the overtaking company's receivable on liability in the transferring company shall be eliminated in the merger.
12. Profit/loss items assignable to sales and other transactions that occurred between the merged companies during the financial year of the merger shall be eliminated in the merger.

Untaxed reserves

13. The untaxed reserves of the subsidiary shall be accounted as untaxed reserves also in the overtaking company. It should be posted directly in the balance sheet and not as a balance-sheet allocation in the income statement.

Transferring company's net profit/loss of the year

14. The results of the transferring company, the financial year of the merger, shall be part of the income statement of the overtaking company.
15. If one part of the transferring company's profit/loss of the year refers to time before the overtaking company acquired the transferring company, this part shall not be included in the overtaking company's income statement.

Merger difference

16. The merger-difference should consist of the difference between
 - The group-based values of assets and liabilities that are assignable to the transferring company, after adjustments for applications of different accounting principles in group and legal person and with deduction for untaxed reserves
 - and*
 - The book value of the shares in the transferring company.
17. When the merger difference is calculated, the values at the entering of the last financial year shall be used. If the group relationship has emerged after the opening of the last financial year, the values that existed when the group relationship emerged shall be used.
18. The merger difference shall be transferred directly to the equity of the parent company. It should be posted in non-restricted equity if the merger difference is not applicable to items 19-20 and 22 for the entire or parts of the difference.

Restricted equity etc.

19. Revaluation reserve in the transferring company and share-capital that have emerged through appreciation shall be transferred to the revaluation reserve in the overtaking company and be treated as an appreciation that have been performed in the overtaking company, if
 - The appreciation is performed after the overtaking company acquired the transferring company
 - and*
 - The appreciation amount has increased the equity of the group.
20. Internal profit that have emerged through sale from the overtaking company to the transferring company shall be transferred to the overtaking company's revaluation reserve on the next coming balance sheet date, to the extension that the transfer amount correspond to the internal profit reduced by deferred tax.
21. Internal profit that have emerges through sale from the overtaking company to the transferring company shall be eliminated from the profit/loss of the year in the overtaking company. Deferred tax shall be posted.
22. If making a provision for reserve fund according to 12 chap. 4 § ABL (1975:1385) a merger difference should be treated as a net profit for the year, to the extent it has not been transferred to restricted equity in accordance with the items 19-20.

Additional information in the annual report

23. Additional information shall regarding every company that has been taken over by means of a merger be provided concerning:
 - a) Firm and organization number
 - b) Day of merger
 - c) The amount by which the transferring company's net sales and operating profit/loss is included in income statement of the overtaking company for the time before the registration of the merger.
 - d) The part of the transferring company's net sales and operating profit/loss that is not accounted in the income statement of the overtaking company (item 15)
 - e) The size of the transferring company's assets, liabilities and untaxed reserves immediately before the transfer to the overtaking company, posted in a summarized balance sheet.
24. If the additional information concerning item 23 b)-e) is leaved out in a published version of the annual report does not prevent that this is followed by the auditor's report, if the published version specify that the information is leaved out and the reason for the leaving out.

Filing

25. The transferring company's filing obligation is in the day of the merger passed over to the overtaking company.

Change of accounting principle

26. application of the recommendation may imply change of accounting principle. In the cases that the overtaking company earlier have accounted mergers according to other principles than those who follows by this recommendation, conversion of prior merger will not be necessary.

Coming into force

27. The recommendation will come into force the 1 of January 2000. The can be applied from the coming into force and shall be applied at latest for financial year in the overtaking company that is begins nearest after the 31 of December 2000. Item 23 shall, however be observed immediately.

Appendix 2: BFNAR 1999:1 (Swedish)

Inledning

1. Dessa allmänna råd är tillämpliga när ett aktiebolag eller en ekonomisk förening (moderföretag) absorberar ett helägt aktiebolag.
2. I dessa allmänna råd avses med:
det överlåtande bolaget - det helägda aktiebolag som upplöses genom fusionen och vars tillgångar och skulder övergår till moderföretaget
det övertagande företaget - det moderföretag som genom fusionen övertar det överlåtande bolagets tillgångar och skulder
fusionsdag - den dag på vilken Patent- och registreringsverket (PRV) registrerar beslut om tillstånd att verkställa fusion

Löpande bokföring

3. Det överlåtande bolaget skall löpande bokföra affärshändelser som inträffar i bolaget fram till fusionsdagen.
4. Den löpande bokföring som för tiden fram till fusionsdagen förts i det överlåtande bolaget utgör efter upplösningen räkenskapsinformation för både det överlåtande bolaget och det övertagande företaget.

Värdering

Koncernvärderingsmetoden

5. De tillgångar och skulder som övertas genom fusionen skall värderas enligt koncernvärderingsmetoden. Metoden innebär att det övertagande företaget övertar tillgångar och skulder till värden som har sin grund i den förvärvsanalys som upprättades vid förvärvet av det överlåtande bolaget.
6. Även när det övertagande företaget är undantaget från skyldighet att upprätta koncernredovisning fastställs värdena med ledning av de principer som ligger till grund för en förvärvsanalys. Saknas det underlag som behövs för en korrekt förvärvsanalys får värden enligt punkt 5 fastställas efter vad som framstår som rimligt med hänsyn till de uppgifter företagen har eller utan större svårighet kan skaffa sig tillgång till.
7. Följande justeringar och tillägg till de bokförda värdena i det överlåtande bolaget skall göras:
 - a) Värde på anläggningstillgångar som är föremål för avskrivning - inklusive koncernmässig goodwill som är hänförlig till det överlåtande bolaget - justeras till de i koncernredovisningen upptagna planerliga restvärdena.
 - b) Uppskjutna skatt hänförlig till koncernmässiga justeringar tas upp till det värde den har i koncernredovisningen. Den uppskjutna skatten bokförs som en fordran eller en avsättning i det övertagande företaget och upplöses i takt med att skillnaden mellan de redovisade och de skattemässiga värdena minskar.
 - c) De övriga koncernmässiga justeringsposter som är hänförliga till det överlåtande bolaget upptas till de värden de har i koncernredovisningen.

Undantag från koncernvärderingsmetoden

8. På tillgångar eller skulder, för vilka det övertagande företaget tillämpar en annan redovisningsprincip än den som tillämpas i koncernredovisningen (t.ex. leasade tillgångar eller pågående arbeten), behöver punkt 7 inte tillämpas. I stället får dessa tillgångar värderas med ledning av de principer som tillämpas i det övertagande företagens redovisning.
9. Bestämmelserna i punkterna 5-7 (koncernvärderingsmetoden) behöver inte tillämpas om de sammantaget leder till en redovisning som endast i oväsentlig omfattning skiljer sig från en redovisning i vilken hänsyn inte tagits till koncernmässiga justeringar och tillägg. I stället får tillgångar och skulder överföras till sina bokförda värden i det överlåtande bolaget.

Värderingstidpunkt

10. Värdering enligt punkterna 5-9 skall avse förhållandena på fusionsdagen.

Övriga justeringar

11. Det överlåtande bolagets fordran på eller skuld till det övertagande företaget liksom det övertagande företagens fordran på eller skuld till det överlåtande bolaget skall elimineras vid fusionen.
12. Resultatposter hänförliga till försäljning och andra transaktioner som skett mellan de fusionerande företagen under det räkenskapsår som avslutas med fusionen skall elimineras vid fusionen.

Obeskattade reserver

13. Det överlåtande bolagets obeskattade reserver skall redovisas som obeskattade reserver även i det övertagande företaget. Detta skall ske direkt i balansräkningen och inte som en bokslutsdisposition i resultaträkningen.

Överlåtande bolags årsresultat

14. Det överlåtande bolagets resultat för det räkenskapsår som avslutas i och med fusionen skall ingå i det övertagande företagens resultaträkning.
15. Om en del av det överlåtande bolagets årsresultat avser tid före det att koncernförhållandet mellan företagen uppstått, skall denna del inte tas med i det övertagande företagens resultaträkning.

Fusionsdifferens

16. Fusionsdifferensen skall bestå av skillnaden mellan
 - de koncernmässiga värdena på tillgångar och skulder som är hänförliga till det överlåtande bolaget, efter justering för tillämpning av olika redovisningsprinciper i koncern och juridisk person samt med avdrag för obeskattade reserver
 - och
 - det övertagande företagets bokförda värde på aktierna i det överlåtande bolaget.
17. När fusionsdifferensen beräknas skall värdena vid ingången av det sista räkenskapsåret i det överlåtande bolaget användas. Har koncernförhållandet uppstått först därefter, används i stället de värden som förelåg när koncernförhållandet uppstod.
18. Fusionsdifferensen skall föras direkt till eget kapital i det övertagande företaget. Den skall tillföras balanserade vinstmedel, om inte annat följer av punkterna 19-20 och 22 för hela eller del av differensen.

Bundet eget kapital m.m.

19. Uppskrivningsfond i det överlåtande bolaget liksom aktiekapital som tillkommit genom uppskrivning skall föras till uppskrivningsfonden i det övertagande företaget och behandlas som uppskrivning som företagets i det företaget, om
 - uppskrivningen företagets sedan det övertagande företaget förvärvat det överlåtande bolaget
 - och
 - uppskrivningsbeloppet ökat koncernens eget kapital.
20. Internvinst som uppkommit vid försäljning från det överlåtande bolaget till det övertagande företaget skall på det övertagande företagets nästkommande balansdag föras till det övertagande företagets uppskrivningsfond, i den utsträckning vinsten denna dag skulle ha eliminerats i en koncernredovisning. Omföringsbeloppet skall motsvara internvinsten minskad med uppskjuten skatt.
21. Internvinst som uppkommit vid försäljning från det övertagande företaget till det överlåtande bolaget efter ingången av det räkenskapsår i det överlåtande bolaget som avslutas i och med fusionen skall elimineras från årets resultat i det övertagande företaget. Uppskjuten skatt skall bokföras.
22. Vid avsättning till reservfond enligt 12 kap. 4 § aktiebolagslagen (1975:1385) skall en fusionsdifferens - till den del den inte enligt punkterna 19-20 förts till bundet eget kapital - behandlas som en nettovinst eller nettoförlust för året.

Tilläggsupplysningar i årsredovisningen

28. Tilläggsupplysningar skall beträffande vart och ett av de bolag som övertagits genom en fusion lämnas om:
 - a) firma och organisationsnummer
 - b) fusionsdag
 - c) det belopp varmed det överlåtande bolagets nettoomsättning och rörelseresultat ingår i det övertagande företagets resultaträkning för tiden före fusionens registrering
 - d) den del av det överlåtande bolagets nettoomsättning och rörelseresultat som inte redovisats i det övertagande företagets resultaträkning (punkt 15)
 - e) storleken av det överlåtande bolagets tillgångar, skulder och obeskattade reserver omedelbart före överföringen till det övertagande företaget, redovisade i en sammandragen balansräkning.
29. Att tilläggsupplysningarna i punkt 23 b) - e) utelämnas i en publicerad version av årsredovisningen hindrar inte att denna åtföljs av revisionsberättelsen, om det i den publicerade versionen anges att upplysningarna utelämnats och skälet för utelämnandet.

Arkivering

25. Det överlåtande bolagets arkiveringsskyldighet övergår på fusionsdagen på det övertagande företaget.

Byte av redovisningsprincip

26. Tillämpning av dessa råd kan innebära byte av redovisningsprincip. I de fall det övertagande företaget tidigare redovisat fusioner enligt andra principer än de som följer av dessa allmänna råd behöver någon omräkning av de tidigare fusionerna inte ske.

Ikraftträdande

27. Dessa allmänna råd träder i kraft den 1 januari 2000. De får tillämpas från ikraftträdandet och skall tillämpas senast för räkenskapsår i det övertagande företaget som inleds närmast efter den 31 december 2000. Punkt 23 skall dock tillämpas omedelbart.

Appendix 3: Survey (English)

Welcome to the survey concerning BFNAR 1999:1

To make it easier to fill in the survey some simple instructions will first be provided:

- The survey consists of multi-choice question in order to make the fill in procedure as fast as possible. After every question, you have the possibility to comment your answer.
- Anonymity will be applied. That is, nor your name or the name of your company will be mentioned in the thesis.
- All questions concern mergers applied to fully owned companies
- The survey does not treat fiscal consequences. This, however, does not prevent you from mentioning such questions in your voluntary comments if you regard this to be important

Comments

- If you comment a question/answer, you should mention the number of the question you commented
- I'm grateful for as many comments as possible. But as this will be time-consuming for you, there is no requirement that you make comments
- However, there exists some answer options where a brief comment would be considerably significant for the for my work. These answer options are marked with a “*”.
- The handling of accounting applied to mergers may vary depending on the size of the companies that are merged. If this in some respect are significant for the application of BFNAR 1999:1, this may also be worth a comment.

Now it is only to honk and drive! Good Luck!

How many mergers have you experienced before BFNAR 1999:1 came into force

1 2 3 4 5 or more

How many mergers have you experienced after BFNAR 1999:1 came into force

1 2 3 4 5 or more

Valuation of the subsidiary's assets and liabilities (BFNAR 1999:1 item 5)

According to BFNAR 1999:1, the subsidiary shall be valued according to the group-value-method (apart from the exceptions in BFNAR 1999:1). Is the recommendation consistently observed on this item?

Yes No* No comment

The description of the financial situation becomes unreal if the subsidiary is valued according to its group-based values.

Do not agree No comment

I agree, but I do not consider this a significant problem

I agree, and I do consider this a significant problem

If the subsidiary's assets and liabilities are valued according to its group-based values, the appreciation ban is violated.

Do not agree No comment

I agree, but I do not consider this a significant problem*

I agree, and I do consider this a significant problem*

Where to post the merger difference (BFNAR 1999:1 item 18)

According to BFNAR 1999:1, the merger-difference shall be posted directly in the equity of the parent company. Is the recommendation consistently observed on this item?

Yes No* No comment

If the merger difference is posted directly in the equity of the parent company, the principle of congruity is violated and the description of the financial situation will become misleading

Do not agree No comment

I agree, but I do not consider this a significant problem*

I agree, and I do consider this a significant problem*

What time to use when calculating the assets and liabilities of the subsidiary (BFNAR 1999:1 item 17)

According to BFNAR 1999:1, the values at the opening of the last financial year shall be used when calculating the merger difference. Is the recommendation consistently observed on this item?

Yes No* No comment

If the values at the opening of the financial year is used when calculating the merger-difference, the description of the financial situation becomes unclear, since the parent company must post the business transactions of the financial year in its own income statement.

Do not agree No comment

I agree, but I do not consider this a significant problem*

I agree, and I do consider this a significant problem*

Distribution of the merger difference in the equity (BFNAR 1999:1 item 19)

Is the recommendation consistently observed regarding the distribution of the merger difference between restricted and non-restricted equity?

Yes No* No comment

BFN is too tolerant concerning the creditors protection. A merger should never be able to increase the distribution capacity.

Do not agree

No comment

I agree, but I do not consider this a significant problem*

I agree, and I do consider this a significant problem*

BFN is too strict concerning the creditors protection. The distribution capacity should not be regulated in BFNR 1999:1. Sufficient protection for creditors already exists in the legislation.

Do not agree

No comment

I agree, but I do not consider this a significant problem*

I agree, and I do consider this a significant problem*

Untaxed reserves (BFNR 1999:1 item 13)

According to BFNR 1999:1, untaxed reserves in the subsidiary shall be directly posted as untaxed reserves in the balance sheet of the parent company. Is the recommendation consistently observed on this item?

Yes No* No comment

If the untaxed reserves of the subsidiary are directly posted in the equity, the merger difference is reduced by the same amount. This is wrong since (72% of) the earned untaxed reserves consist of earned capital during the time between the acquisition and the merger.

Do not agree

No comment

I agree, but I do not consider this a significant problem*

I agree, and I do consider this a significant problem*

When acquisition and merger takes place the same year (BFNR 1999:1 item 15)

According to BFNR 1999:1, If the subsidiary is acquired the same year as the merger takes place, the part that relate to the time before the merger shall not be posted in the income statement of the parent company. Is the recommendation consistently observed on this item?

Yes No* No comment

It will provide an unreal/insufficient description of the financial situation if the merger is accounted according to item 15.

Do not agree

No comment

I agree, but I do not consider this a significant problem*

I agree, and I do consider this a significant problem*

The subsidiary's net profit (BFNR 1999:1 item 4 & 14)

According to BFNR 1999:1, annual report/accounts shall not be set up in the subsidiary at the time of the merger. Is the recommendation consistently observed on this item?

Yes No* No comment

Annual report/accounts in the dissolving subsidiary should be set up since it is of great importance for external interested parties to be able to take part of an annual report/ accounts in the dissolving subsidiary

Yes No* No comment

Annual report/accounts in the dissolving subsidiary should be set up: In order to make it possible for managing director and board of directors to be granted discharge

Yes No* No comment

Annual report/accounts in the dissolving subsidiary should be set up because: In opposite to, the opinion of BFN, subsidiaries that are merged should, according to existing legislation, close the financial year with an annual report/accounts.

Yes No* No comment

BFN can regulate that annual report/accounts should be set up in the subsidiary in a merger situation. Consequently, this is not a question that necessarily must be handled by the legislator

I Do not agree I Agree No comment

Appendix 4: Survey (Swedish)

Hej och välkommen till enkätundersökningen om BFNAR 1999:1

För att det ska bli lättare att fylla i enkäten följer först lite enkla instruktioner:

- För att det ska gå snabbt består enkäten av ikryssningsfrågor. Det finns även till varje ikryssningsfråga möjlighet att kommentera sitt svar
- Anonymitet kommer att gälla. Dvs. varken ert namn eller namnet på Erat företag kommer att nämnas i uppsatsen.
- Alla frågor berör enbart fusioner av helägt dotterbolag.
- Enkäten behandlar inte skattekonsekvenser, detta hindrar dock inte att Ni nämner sådana frågor i Era frivilliga kommentarer om ni anser det viktigt.

Angående kommentarer

- Om Ni kommenterar en fråga/svar så bör Ni nämna numret på frågan ni kommenterade
- Jag är givetvis tacksam för så mycket kommentarer som möjligt. Men eftersom detta blir mer tidskrävande för Er, så är det inget krav från min sida att ni kommenterar.
- Det finns dock vissa svarsalternativ där en kortfattad kommentar från Er skulle vara av stor betydelse för mitt arbete, även om det fortfarande inte är ett krav. Dessa svarsalternativ har jag markerat med en ”*”.
- Hanteringen av redovisning av fusioner kan variera beroende på hur stort företaget är. Om detta har betydelse för tillämpandet av BFNAR 1999:1 i vissa avseenden kan också detta vara värt en kommentar från Er sida.

Nu är det bara att tuta och köra! Lycka till!

1. Ungefär hur många 14:22 fusioner har Ni deltagit i

före det att BFNAR 1999:1 trädde i kraft?

1 2 3 4 5 eller mer

2. Ungefär hur många 14:22 fusioner har Ni deltagit i efter det att BFNAR 1999:1 trädde i kraft?

1 2 3 4 5 eller mer

Värdering av dotterbolagets tillgångar och skulder (BFNAR 1999:1 punkt 5)

5. Enligt BFNAR 1999:1 skall det överlåtande företaget värderas till dess koncernmässiga värden (bortsett från undantagen i BFNAR 1999:1). Följs anvisningen konsekvent på denna punkt?

Ja Ingen kommentar Nej*

6. Det ger en överklig bild av redovisningen om man värderar det överlåtande företaget till dess koncernmässiga värden

Håller inte med Ingen kommentar

Håller med, men ser inte detta som ett betydande problem*

Håller med, och ser detta som ett betydande problem*

7. Om man värderar det överlåtande företaget till dess koncernmässiga värden så bryter man mot uppskrivningsförbudet.

Håller inte med Ingen kommentar

Håller med, men ser inte detta som ett betydande problem*

Håller med, och ser detta som ett betydande problem*

Frivilliga kommentarer till frågorna 5-7

Det är av större betydelse, om än inget krav, att svarsalternativ märkta med "*" kommenteras.

* Om BFNAR inte följs konsekvent på en viss punkt, kommentera då gärna varför, och hur vanligt det är att avvikelser sker.

**Vart fusionsdifferensen ska bokföras
(BFNAR 1999:1 punkt 18)**

9. Enligt BFNAR 1999:1 skall fusionsdifferensen bokföras direkt i moderbolagets egna kapital. Följs anvisningen konsekvent på denna punkt?

Ja Ingen kommentar Nej*

10. Att bokföra fusionsdifferensen i direkt i moderbolagets egna kapital strider mot kongruensprincipen och ger en missvisande bild av redovisningen.

Håller inte med Ingen kommentar
Håller med, men ser inte detta som ett betydande problem*
Håller med, och ser detta som ett betydande problem*

5. *Frivilliga kommentarer till frågorna 9-10*

**För vilken tid fusionsdifferensen skall uträknas
(BFNAR 1999:1 punkt 17)**

12. Enligt BFNAR 1999:1 skall värdena vid ingången av det sista räkenskapsåret användas vid beräkning av fusionsdifferensen. Följs anvisningen konsekvent på denna punkt?

Ja Ingen kommentar Nej*

13. Att använda värdena vid ingången av det sista räkenskapsåret vid beräkning av fusionsdifferensen ger en otydlig bild av redovisningen.

Håller inte med Ingen kommentar
Håller med, men ser inte detta som ett betydande problem*
Håller med, och ser detta som ett betydande problem*

Frivilliga kommentarer till frågorna 12-13

Fördelning mellan fritt och eget kapital (BFNAR 1999:1 punkt 19)

15. Följs anvisningen konsekvent i fråga om fördelning av fusionsdifferensen mellan fritt och bundet eget kapital?

Ja Ingen kommentar Nej*

16. BFN är för slapphänt med borgenärsskyddet. En fusion bör aldrig kunna leda till att utdelningskapaciteten ökar.

Håller inte med Ingen kommentar
Håller med, men ser inte detta som ett betydande problem*
Håller med, och ser detta som ett betydande problem*

17. BFN är för hårdhänt med borgenärsskyddet. Utdelningskapaciteten behöver inte regleras i BFNAR 1999:1. Tillräckligt skydd för borgenärer finns redan i lagstiftningen.

Håller inte med Ingen kommentar
Håller med, men ser inte detta som ett betydande problem*
Håller med, och ser detta som ett betydande problem*

18. *Frivilliga kommentarer till frågorna 15-17*

Obeskattade reserver (BFNAR 1999:1 punkt 13)

19. Enligt BFNAR 1999:1 skall obeskattade reserver i det överlåtande företaget föras direkt till balansräkningen som obeskattade reserver i det övertagande företaget. Följs anvisningen konsekvent på denna punkt?

Ja Ingen kommentar Nej*

20. Att bokföra överlåtande företags obeskattade reserver direkt i övertagande företags balansräkningen innebär att fusionsdifferensen minskar. Detta är fel eftersom (72% av) de intjänade obeskattade reserverna består av intjänat kapital under koncerntiden.

Håller inte med Ingen kommentar
Håller med, men ser inte detta som ett betydande problem*
Håller med, och ser detta som ett betydande problem*

Frivilliga kommentarer till frågorna 19-20

När förvärv och fusion sker samma år (BFNAR 1999:1 punkt 15)

22. BFNAR 1999:1 säger att: Om dotterbolaget förvärvades samma år som fusionen äger rum, skall den delen som avser tiden före förvärvet inte tas med i det övertagande företags resultaträkning. Följs anvisningen konsekvent på denna punkt?

Ja Ingen kommentar Nej*

23. Det ger en felaktig/otillräcklig bild av redovisningen om man redovisar enligt punkt 15 i BFNAR 1999:1

Håller inte med Ingen kommentar

Håller med, men ser inte detta som ett betydande problem*

Håller med, och ser detta som ett betydande problem*

Frivilliga kommentarer till frågorna 22-23

Löpande bokföring (BFNAR 1999:1 punkt 4 & 14)

25. Enligt BFNAR 1999:1 skall inte årsbokslut/årsredovisning upprättas i det övertagande företaget vid fusionen. Följs anvisningen på denna punkt?

Ja Ingen kommentar Nej*

Årsbokslut/årsredovisning i det överlåtande företaget bör upprättas därför att:

26. Det är av stor betydelse för externa

intressenter att kunna ta del av ett

årsbokslut/årsredovisning i det upplösta bolaget

Ja Ingen kommentar Nej*

27. Ansvarsfrihet inte kan beviljas VD och styrelse i det överlåtande företaget om inte årsbokslut/årsredovisning upprättas.

Ja Ingen kommentar Nej*

28. I motsats till Bokföringsnämndens uppfattning,

skall enligt lag dotterbolag som fusioneras avsluta räkenskapsåret med årsbokslut.

Ja Ingen kommentar Nej*

29. BFN kan normera att årsbokslut/årsredovisning skall upprättas i det överlåtande företaget vid fusion, och detta behöver således inte vara en fråga för lagstiftaren att hantera.

Håller med Håller inte med Ingen kommentar

30. *Frivilliga kommentarer till frågorna 25-29*

Appendix 5: Referral list

ALMI Företagspartner
Byggentreprenörerna
Dun & Bradstreet Sverige AB
Ekobrottsmyndigheten EBM
Ekonomihögskolan vid Lunds universitet
Finansbolagens förening
Finansinspektionen FI
Föreningen auktoriserade revisorer FAR
Företagarnas Riksorganisation
Försäkringsförbundet
Göta Hovrätt
Handelshögskolan i Stockholm
Handelshögskolan vid Göteborgs universitet
Hovrätten för Nedre Norrland
Högskolan i Borås
Inskrivningsmyndigh. för företagsinteckning
Jurid. fakultetsnämnden vid Umeå universitet
Kammarrätten i Göteborg
Kammarrätten i Stockholm
Konkursförvaltarkollegiernas Förening
Lantbrukarnas Riksförbund
Landsorganisationen i Sverige
Länsrättein i Skåne Län
Länsstyrelsen i Norrbottens Län
Mithögskolan
Närings- och teknikutvecklingsverket
Näringslivets Nämnd för Regelgranskning
Patent- och registreringsverket
Redovisningsrådet
Revisorsnämnden
Riksskatteverket
Riksåklagaren
Statistiska Centralbyrån
Stockholms Handelskammare
Stockholms tingsrätt
Svensk Handel
Svenska Arbetsgivareföreningen
Svenska Bankföreningen
Svenska Revisorsamfundet SRS
Sveriges Advokatsamfund
Sveriges Akademikers Centralorganisation
Sveriges Bokförings- och
Revisionsbyråers Förbund SRF
Sveriges fastighetsägareförbund
Sveriges Industriförbund
Sveriges Redovisningskonsulters Förbund SRF
Sydsvenska Industri- och Handelskammaren
Tjänstemännens Centralorganisation
Upplysningscentralen UC AB