UPV/EHU

OCW "Companies Accounting"

LECTURE MATERIAL: Topic III

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DISSOLUTION, LIQUIDATION, TRANSFORMATON & BUSINESS COMBINATIONS

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TOPIC III

Purpose of the Topic:

- Define situations such as Dissolution and Liquidation
- Journalize the recording of the consequences of Liquidation

Title X. Corporations Enterprises Act.

- Define and identify Transformations, Spin-offs and Mergers.
- Journalize the recording of these transactions.

***Law 3/2009 of 3 April, on Structural Changes in Trading Companies*.**

1. DISSOLUTION

Legal process through which the relationship between shareholders and the Company ends, leading to a new situation for the business.

1.1. Reasons for a company to dissolve

- The term of the company has expired or renewed and registered in the Mercantile Registry.
- The purpose the Company has been founded is not being achieved.
- Shareholders have agreed in dissolving the Company.
- Loss of the Company have reduced the equity to less than half the Share Capital and the situation has not been solved in one year`s period.
- The decrease of Capital under the minimum.
- When the par value of non-voting shares exceeds half the amount of paid up Capital and the situation is not recovered within two years.

Once there is evidence of any of these situations, the administrators of the Company should decide in the Shareholder´s Meeting which measures to adopt. They cannot start new transactions, being responsible for any act performed.

Dissolution of corporate enterprises shall be registered in the Mercantile Registry (art.369).

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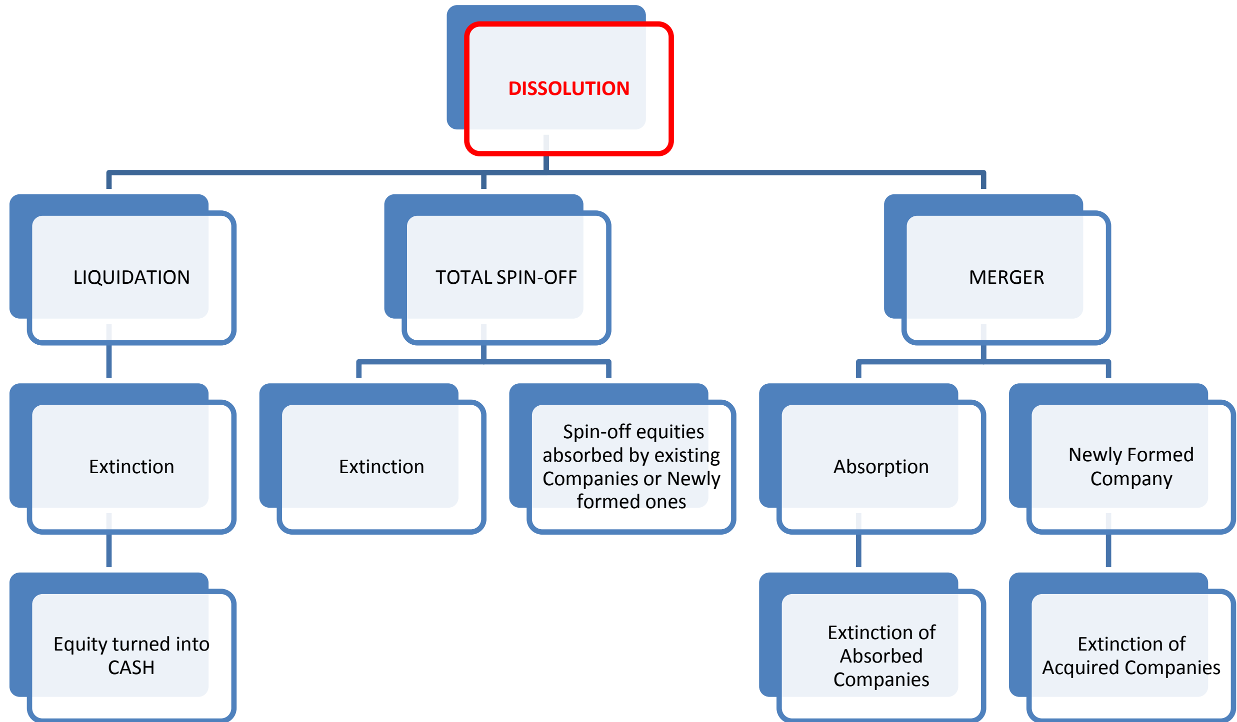
1.2 Consequences of dissolution



This process can end up in the Liquidation of the Company, Merger or Total Spin-off.

2. LIQUIDATION

Is a process that leads the Company to the extinction with the denomination "in liquidation" and maintains its legal personality during this period as well as the relationship with its shareholders.

The liquidators are designed by the owners of the Company, they substitute the administrators and they will be the responsible of the conclusion of the company`s acts during this period. This means: collect the amounts due to the company by selling and receiving the assets values and pays its liabilities for the distribution of the liquidation dividends among the shareholders.

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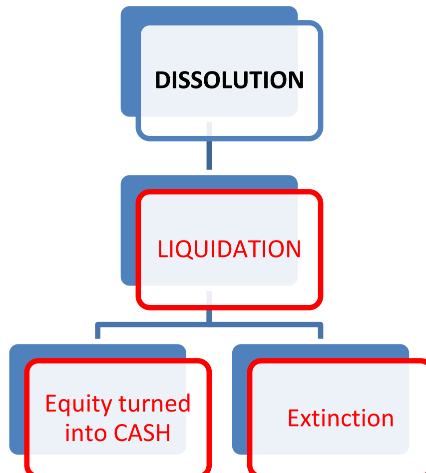

2.1. Responsibilities of liquidators

- Custody books, documentation and correspondence of the company.
- Within three months of starting liquidation proceedings, prepare inventory and balance sheet as for dissolution date (art.383)

  A new accounting process starts. The accounting of the "Company in liquidation"
- Finish outstanding operations and conduct transactions needed for liquidation.(art. 384)

  Any result consequence of these transactions is recorded in the account *(128) "Results of Liquidation"*
- Collect credits and pay liabilities.
- Ask for unpaid capital to reach the par value and pay creditors.
- If liquidation last beyond deadline for approval of financial statements, in the first six months of each financial year they shall prepare an annual statement of companies` accounts and a detailed progress report on the liquidation proceedings to the general meeting (art.388.2)
- Submit a final balance sheet, a complete report on the operations performed and the proposal for distribution of remaining assets among shareholders for its approval in general meeting. Shareholders will receive their corresponding amount according to their participation and outlaying in the Company.
- Once approved, liquidators will deposit the books and documents in the Mercantile Registry.

Once concluded, the Company will be cancelled from the Commerce Registry.

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2.2. Accounting process

2.2.1. Stage 1. Preparatory transactions:

The settlement of contra- accounts

Amount	Debit	Date	Credit	Amount
	(28x) Accumulated depreciation (29x) Impairments		(XXX) Assets	

The elimination of adjustments

Amount	Debit	Date	Credit	Amount
	(485) Deferred Incomes		(128) Results of Liquidations	

Amount	Debit	Date	Credit	Amount
	(128) Results of Liquidations		(480) Deferred Expenses	

2.2.2. Stage 2. Liquidation transactions.

Selling of assets

Amount	Debit	Date	Credit	Amount
	(57x) Cash ((128) Results of Liquidations)		(XXX) Assets (477) Output VAT ((128) Results of Liquidations)	

Cancellation of liabilities

Amount	Debit	Date	Credit	Amount
	(XXX) Liabilities ((128) Results of Liquidations)		(57x) Cash ((128) Results of Liquidations)	

Expenses of the process

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Amount	Debit	Date	Credit	Amount
	((128) Results of Liquidations)			
	(472) Input VAT		(57x) Cash	
			(4751) Withholding taxes	

VAT offset

Amount	Debit	Date	Credit	Amount
	(477) Output VAT		(472) Input VAT	
	(4700)VAT recoverable		(4750) VAT payable	

Closing of Equity accounts

Amount	Debit	Date	Credit	Amount
	(100) Share Capital			
	(11x) Reserves			
	(129) P/L Period			
	(128) Results from liquidation		(5511) Shareholders liquidation accounts	
			(128) Results from liquidation	

Paying the shareholders their participation in the company

Amount	Debit	Date	Credit	Amount
	(5511) Shareholders liquidation accounts		(57x) Cash*	

**Considering there is Cash to be distributed.*

In this case, if there is Equity left to share among shareholders, the requirements to distribute must follow the next order:

- The first ones to collect the money left are the non-voting shares and privileged ones.
- If there are shares that have outlaid their par value in different percentages, the first to collect the money are the ones that have outlaid a bigger percentage, receiving the excess from the next ones.
- If there is still money left, it will be distributed among the owners according to their percentage in the Share Capital of the Company.

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Ex: Company "A" liquidates and converts all its Equity into cash for the amount of 5,000,000€. Its Share Capital is formed by the following types of shares:
Type 1: 100,000 non-voting shares 20€/sh. Par Value
Type 2: 150,000 ordinary shares 20 €/sh. Par Value fully outlaid
Type 3: 50,000 ordinary shares 20 €/sh. Par Value outlaid in a 50%.

- ***How much will each type of share get from the liquidation?***

Ex: Company "B" liquidates and converts all its Equity into cash for the amount of 6,000,000€. Its Share Capital is formed by the following types of shares:
Type 1: 100,000 ordinary shares 40€/sh. Par Value fully outlaid
Type 2: 150,000 ordinary shares 20 €/sh. Par Value outlaid in a 75%
Type 3: 50,000 ordinary shares 20 €/sh. Par Value outlaid in a 50%.

- ***How much will each type of share get from the liquidation?***

3. TRANSFORMATION[1]

Is the changing in the company`s status but maintaining its legal personality (art.3)

A company in liquidation may transform as long as it has not started to distribute its liquidity among shareholders (art.5)

3.1. Possible transformation instances

- From trading company to any other form of trading company.
- From civil company to trading company.
- From cooperative into any form of trading company and from trading company into cooperative

The most common situations are those in which a personal company transforms into a capitalist one, searching for the limitation in responsibility of the owners. It is also frequent to find Joint stock companies transforming into limited liability companies.

3.2. Legal requirements

The transformation agreement must be approved in general meeting under the terms of the company`s status that is transformed, in which the directors must ensure the availability of the next documents (art.9)

- The director´s report justifying the reasons and explaining the legal and economic aspects of the transaction.
- The balance sheet closed in a date within six months prior to the meeting.
- The auditor`s report on the balance sheet, whenever the company is required to audit its accounts.
- The proposal deed of incorporation or by-laws of the company that results from the transformation
- In joint stock companies, an independent expert report must also be prepared.

[1] *Law 3/2009 of 3 April, on Structural Changes in Trading Companies. Title I. (*In Spain Ley de 3/2009 del 3 Abril, de "*Modificaciones Estructurales en Sociedades Mercantiles*" Título I.)

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The agreement must be announced in the Official Journal of the Mercantile Registry and in one of the daily newspaper widely circulated in the province where the company`s registered office is located (art.14.1)

3.3. Shareholder´s exit rights

Shareholders and partners may exit the company to be transform if they haven`t vote in favor of the agreement (art.15.1)

Those who, as a result of the transformation must assume personal responsibility for the company`s credits and did not vote in favor the agreement of transformation, are considered excluded automatically unless they express their willingness of adhering the company within one month (art.15.2)

Their participations will be valued by agreement between the company and the exit shareholders or by an independent expert assigned by the Mercantile Registry.

3.4. Accounting consequences

- **3.4.1. Transformation of capital companies into personal companies**
  - Consider the real value of the participation of the shareholder that exits the company.

Amount	Debit	Date	Credit	Amount
(Real Value)	(109) Own shares to reduce capital		(57x) Cash	

  - Decrease in Capital

Amount	Debit	Date	Credit	Amount
	(100) Share Capital (113) Voluntary Reserves		(109) Own shares to reduce capital	*(Real Value)*

- **3.4.2. Transformation of personal companies into capital companies**

  The personal companies` owners are liable for any debt assumed before the transformation, unless the creditors expressively mention their approval to the transformation.

  The equity of the company to be transformed must be valued by an independent expert. If the Book`s value is higher than the assigned value by the expert, the transformation may not be registered unless the transforming company records these differences before the transaction takes place.

- **3.4.3. Transformation of limited liability companies into joint stock companies.**

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The equity of the limited liability company to be transformed must be valued by an independent expert under the same terms as indicated in the previous paragraph.

- **3.4.4. Transformation of joint stock companies into limited liability companies.**

If there is uncalled capital, noticing that Limited Liability Companies must have their Share Capital totally outlaid, there are two alternatives to adopt:

- Ask the shareholders to outlay the Capital

Amount	Debit	Date	Credit	Amount
	(558) Receivable on called up capital		(103) Uncalled Capital	

- Outlay (cash contributions)

Amount	Debit	Date	Credit	Amount
	(572) Banks		(558) Receivable on called up capital	

- Outlay (no-monetary contributions)

Amount	Debit	Date	Credit	Amount
	(300) Merchandises (218) Vehicles….etc….		(104) Uncalled non-monetary contributions	

- Decrease the Capital by condoning uncalled capital

Amount	Debit	Date	Credit	Amount
	(100) Share Capital		(103) Uncalled Capital	

4. BUSINESS COMBINATIONS

4.1. PURCHASE METHOD

Mergers and Acquisitions of all assets and liabilities of a company or part of a company comprising one or more businesses constitute processes of business combinations that lead to companies` concentrations.

Other transactions included in these categories are the following[2]:

- Spin-offs
  - independent companies
  - group companies

[2] *Recognition and Measurement Standards, Number 19th Business Combination*, lists the circumstances in which a legal form can be considered a business combination.

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- Acquisition of shares or equity holdings in the capital of a company, including those received as a non-monetary contribution on the incorporation of a company or in a subsequent share capital increase.
- Other transactions in which a company acquires control over another company other than through an investment, irrespective of whether it previously held an interest in that company's capital.

Mergers, acquisitions comprising a business and spin-offs carried out between independent companies (no group), are subject to Measurement Standard 19 *"Businesses Combination"*[3]. These transactions shall be accounted for, using the Purchase Method[4] which considers that there is an acquiring company that must record the acquired assets and liabilities following market values and its corresponding goodwill or negative goodwill.

Applying the acquisition method requires all of the following steps:

- **First step. Identify the acquirer.**
  It is the one than obtains the control of the business or businesses. It receives and records the acquired companies` assets and liabilities at fair value and when it corresponds it records goodwill. In the accounting records of the acquirer over or undervalues of its assets or liabilities cannot be reported. These must follow book`s value.

  The entity that transfers cash or other assets, or incurs liabilities to effect a business combination is generally identified as the acquirer. This leads to think the absorbing company is always the acquirer, but this does not necessarily happen. If the acquirer is the absorbed one, the standards call these transactions reverse **acquisitions**. In such cases the criteria that should be considered is the one of consolidated annual accounts.

  The following criteria shall also be taken into consideration:
  - If the business combination empowers the owners of one of the combining companies:
    - To retain or receive the largest portion of the voting rights in the combined entity or enables them to elect, appoint or remove the majority of the members of the governing body of the combined entity (First criterion to be considered)
    - To appoint the management team of the combined business (Second criterion to be considered)

    That company shall usually be the acquirer.

  - If the fair value of one of the companies is significantly higher than the fair value of the other or others involved in the transaction, the acquirer shall usually be the company with the highest fair value.

[3] *We will refer in our study to Mergers between independent companies.*
[4] Measurement Standard 19th Spanish Accounting Plan 2007

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- The acquirer is usually the company that pays a premium over the fair value of the equity instruments of the other combining companies.

Ex. Company "A" absorbs Company "B" (independent companies) Which is the acquirer?

	Company "A"	Company "B"
Equity Fair Value	5,800	9,000

There is no other information about the management of the combined company.

Ex. Company "A", "B" and "C" will dissolve and create New Company "D". Which is the acquirer?

	Company "A"	Company "B"	Company "C"
Total Assets	3,200	3,400	4,000
Revenues	11,000	10,000	18,000
Profits	700	1,000	1,100
Fair Value	7,800	9,000	8,300

In a combination involving **more than two companies or businesses**, other factors are taken into consideration, such as which of the companies initiated the combination or whether the volume of assets, revenues or profit and loss of one of the combining companies or businesses significantly exceeds those of the others.

Ex. Company "A" absorbs Company "B".

	Company "A"	Company "B"	Company "C"
Total Assets	3,200	3,400	4,000
Revenues	11,000	10,000	10,500
Profits	700	1,000	1,100
Fair Value	5,800	6,000	6,300

There is no other information about the management of the combined company.

Company "C" initiated the combination

- ***Which is the acquirer?***

- **Second step. Determine the acquisition date.** It is considered to be the moment of acquisition of control. Normally the date the transaction is approved in general meeting in the acquired company unless the agreement establishes a subsequent date as the one of the assumption of control. Once the merger or spin-off has been filed at the Mercantile Registry, the acquirer shall recognize the assets and liabilities of the acquired businesses.

- **Third step. Determine the cost of the acquisition.** It is formed by the addition of the next variables:

  - The acquisition-date fair values of the assets given, liabilities incurred or assumed and the equity instruments issued by the acquirer. However, when the fair value of the businesses acquired is more reliable, this shall be taken into account.

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- The fair value of any consideration contingent on future events or compliance with certain conditions.

- Costs related with the issue of equity instruments or the financial liabilities given as consideration for the acquired assets and liabilities shall be considered as less unrestricted reserves.

- The remaining fees paid to legal advisors or other professionals involved in the transaction shall be recognized as an expense in the income statement. Under no circumstances shall expenses incurred internally on such items, or expenses incurred by the acquired company in relation to the business combination, be included in the cost of the combination.

- In the absence of a more reliable measurement, the fair value of the equity instruments or the financial liabilities issued which are given as consideration in a business combination shall be their quoted price in an active market, where this is available. Where this is not available, in the particular case of mergers and spin-offs, the fair value shall be the value allocated to the shares or equity holdings of the acquirer in order to determine the exchange ratio.

- When the carrying amount of the assets given by the acquirer as consideration differs from the fair value, any gain or loss shall be recognized in the income statement, as provided for in the standard on exchanges of property, plant and equipment.

Ex: "A" has issued 10,000 shares 50€/sh fair value to acquirer "B". The cost of issuing shares have been 1,000€, professional services 500€ and estimated costs of the financial department for the assessment in the transaction 2,000€.
Which is the cost of the acquisition?

- **Fourth step. Recognize and measure the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquired company.**

  At the acquisition date, identifiable assets acquired and liabilities assumed shall be recognized and measured using the following criteria:
  - Recognition criterion. Assets acquired and the liabilities assumed must meet the definition of an asset or liability set out in the Accounting Framework, and should be part of the assets and liabilities exchanged by the acquirer and the acquired company in the business combination, even if some of these assets and liabilities were not recognized in the annual accounts of the acquired (for example, intangible assets internally generated: a brand name or customer relationship).
  - Measurement criterion. The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair value, provided that this can be measured reliably.

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- **Fifth step. Recognizing and measuring goodwill or a gain from a bargain purchase ("negative goodwill").**

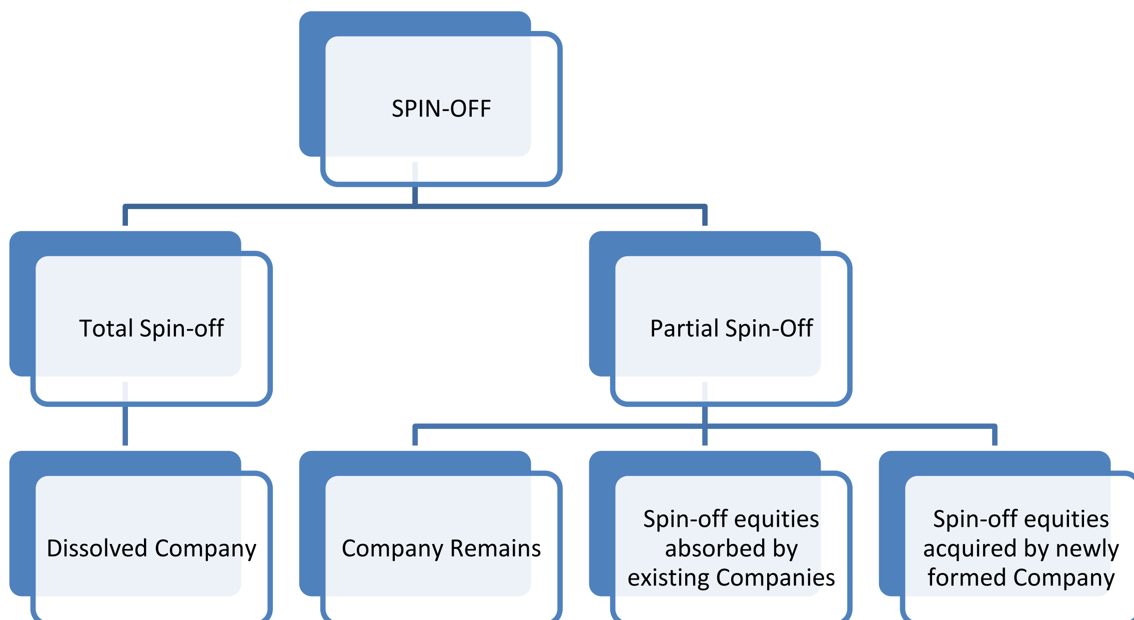
Cost of acquisition-(Real Value assets-Real Value Liabilities): >0 = Goodwill (204) <0 = Negative Goodwill (774). "Negative goodwill on business combinations"

The excess of the cost of the business combination at the acquisition date over the value of the identifiable assets acquired less the liabilities assumed under the terms described in the preceding section shall be recognized as goodwill.

In the exceptional event that the value of the identifiable assets acquired less the liabilities assumed exceeds the cost of the business combination, the excess, gain from a bargain purchase, shall be accounted for as income in profit and loss.

4.2. DIVESTMENTS/SPIN-OFFS[5]

Is the transaction by which the equity of a company is totally or partially divided and transferred to one or more existing or newly created companies without liquidation.



[5] *Law 3/2009 of 3 April, on Structural Changes in Trading Companies. Title III. (art.68-80)*

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4.2.1. Different forms the transaction can adopt

- 4.2.1.1. Total spin-off (art.69)
  The consequence is the extinction of the split Company and trespassing of all its equity separated into two or more parts under universal succession arrangements to newly created companies or existing ones.
  These companies issue shares destined to the shareholders of the split company who receive them on a pro rata basis.

- 4.2.1.2. Partial spin-off (art.70)
  The consequence is the trespassing of one or more part of its equity, each consisting of a single economic unit, under universal succession arrangements to newly created companies or existing ones. The split company shall decrease its Share Capital in the amount necessary to separate the part or parts transferred.

  The absorbing or newly formed companies issue shares destined to the shareholders of the split company who receives them on a pro rata basis.

- 4.2.1.3. Separation(art.71)
  It is similar to a partial spin-off. The difference with this one is that the split company receives shares in the recipient companies.

4.3. MERGERS

A merger is a financial tool in which two or more companies come together by forming a new one or acquiring one another and used for enhancing long-term profitability by expanding operations.

4.3.1. Reasons a company can find to merger.

The purpose of these transactions is the *business growth*, both by achieving cost reductions, such as operative costs through staff reductions, general expenses reductions, or by increasing opportunities such as economies of scale, acquiring new technology, entering new markets, introducing new products or supporting less financial risks.

Efficiency improvements can be achieved by integrating structures and acquiring Cost synergies and/or Revenue synergies.

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Ex: *Banesto absorbed by Santander*[6]
"Advantages for the shareholders of Banesto:
They become shareholders of Santander, a diversified international
group with a presence in high-growth markets, very liquid shares, an attractive
Remuneration policy and a firm strategy of creating value for shareholders.
For the shareholders of Santander, the transaction has low execution risk and will create significant synergies from integration.
The merger shall be accomplished by means of the acquisition of Banesto (absorbed company) by Santander (absorbing company), with the termination by means of dissolution without liquidation of the former and the en bloc transfer of all of its assets and liabilities to the latter, which shall acquire by universal succession all of the rights and obligations of Banesto. The shareholders of Banesto other than Santander shall receive shares of Santander in exchange as a result of the Merger". (www.santander.com, 2012)

4.3.2. Types of mergers from an economic perspective

Horizontal merger: between companies that compete directly. A larger company with more market share is formed by sharing the same product lines and markets.

Vertical merger: they take place among firms that work at different stages in the production of the same good, for example a company that acquires its main supplier.

Market-extension merger: a way to access to bigger markets by merging from companies that sell same products in different markets.

Conglomerate mergers: companies that merge perform very different activities.

4.3.3. Types of Mergers from a financing perspective

This combination of two or more companies (some dissolve, other remain) seeks the benefits of business combinations through two different ways that are distinguished by how the merger is financed. Shareholders of the dissolved companies join the new company or the absorbing one by the reception of new shares on a pro rata basis. Acquired assets can be written up to the actual purchase price.

Each has certain implications for the companies involved and for investors:

- By the **absorption** of one or more companies, the dissolved ones, by another that remains as a single Company, new owner, issuing stocks by increasing the Capital. (Art 23.2. *Structural Changes in Trading Companies*)

[6] Madrid, Dec. 17, 2012. Santander Bank announces its absorption of Banesto Bank.

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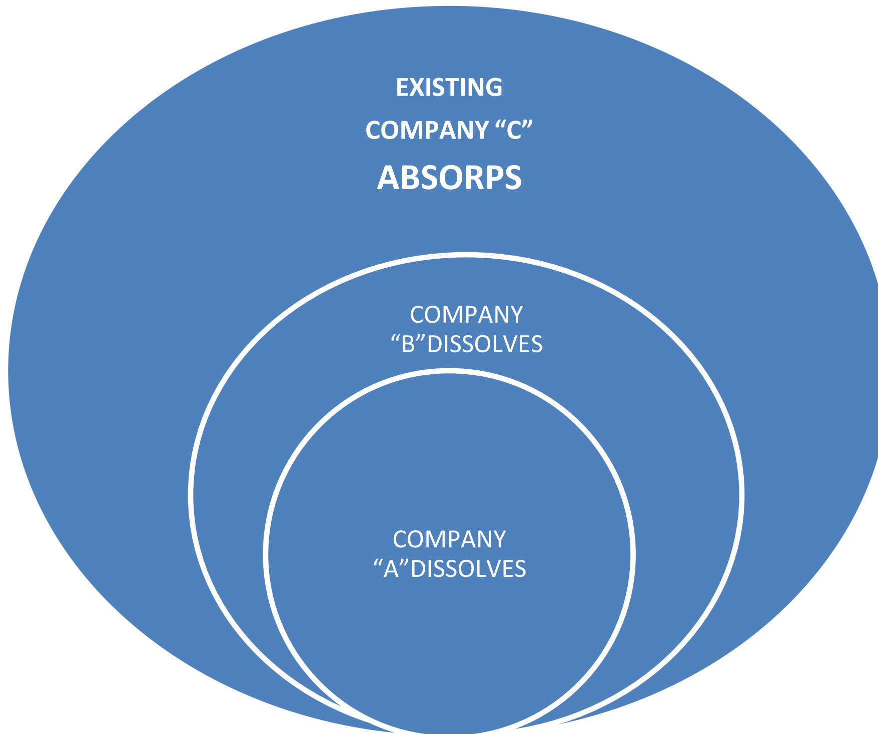

Characteristics:

- Company "C" (absorbing):
  - Absorbs companies "A" and "B".
  - Increases Capital, issuing new shares
  - Receives "A" and "B" Equity (assets and liabilities)
  - Gives the new shares to "A" and "B" shareholders.
- Companies "A" and "B"(absorbed):
  - Dissolve.
  - Transfer their equities (assets and liabilities) to "C"
  - Receive issued shares from "C", according to an exchange ratio, that are given to their shareholders.

- **Forming a larger and new company** out of the assets and liabilities of the dissolved ones. It acquires the dissolved companies` assets, rights and obligations under universal succession arrangement. (Art 23.1). New stocks are issued and assigned to the old companies` shareholders.

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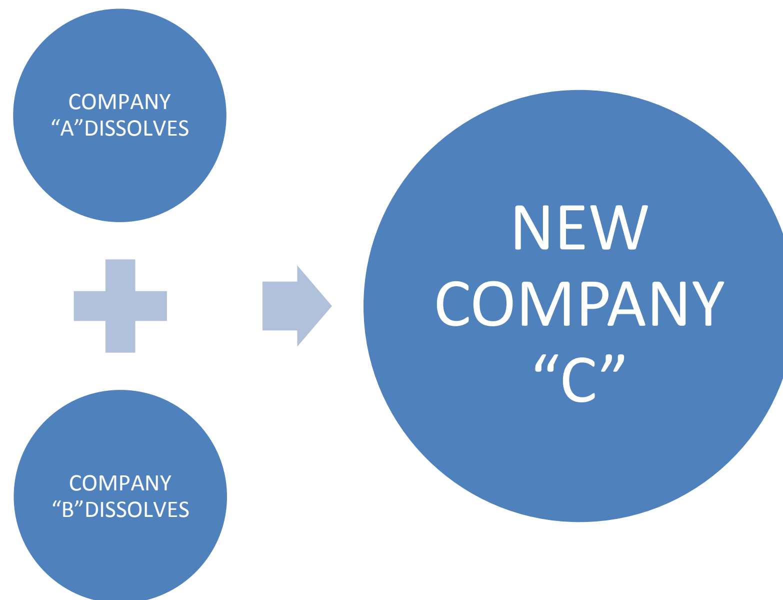

Characteristics:

- Company "C" (newly formed company):
  - Acquires "A" and "B" Equity (assets and liabilities)
  - Creates new Capital, issuing new shares
  - Gives the new shares to "A" and "B" shareholders.
- Companies "A" and "B"(dissolved):
  - Dissolve.
  - Transfer their equities (assets and liabilities) to "C"
  - Receive issued shares from "C", according to an exchange ratio, that are given to their shareholders.

4.3.4. Legal Procedures

Different stages to follow the legal requirements must be considered in mergers:

- **Stage 1.** The preparation of the merger proposal and merger balance sheet. These documents must be verified by independent experts, made public and registered in the Mercantile Registry and approved in the general meeting of the companies affected.

  The balance sheet used for this purpose can be the latest approved one if it refers to accounts closed not earlier than six months prior to the merger proposal. If the annual balance does not follow this requirement a new one must be drawn up on a date no longer than three months prior to the merger proposal (art.36)

  This balance sheet will be adjusted to the real values agreed in the process, audited if the company is obliged to, and approved in general meeting.

- **Stage 2**. The decision of the affected companies to merger, if the merger proposal and balance sheet are approved in their general meetings.

- **Stage 3**. The execution of the merger, by its announcement in the Official Journal of

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the Mercantile Registry. During one month after this announcement, creditors of merging companies that already own credits before the proposal was made may oppose to the transaction until their credits are guaranteed. Bondholders may also oppose under the same terms as general creditors unless the merger was approved by their general meeting (art.44).

4.3.5. Exchange Ratio

The exchange ratio is established considering the real value of the equities of the affected companies. This exchange ratio may be adjusted by compensating with cash to the shareholders but with a limit of the 10% of the par value of their shares or the book`s value attributed (art 25.2).

Whenever a merged company already participates in the shares of another company taking place in this transaction, these shares must be redeemed or cancelled but never exchanged for the shares in the company ensuing from the merger. (Art 26)

The quantification of the number of shares to be exchanged will take place in the absorbing company or the new one formed, depending on the type of merger[7]:

- Absorbing Company
  - Number of shares to be issued = Equities[8] of absorbed companies/Real Value Absorbing Company`s Shares

Ex: "A" 10,000 Shares valued 29,2 €/share absorbs "B" Equity value of "B" 119,568€
Number of shares to issue by company "A" = 119,568/29,2 =4,094
Exchange Rate:
Difference in money:

- New Company
  - Number of shares to be issued = Equities of acquired companies/Issuing Value Newly Formed Company

[7] If we consider "A" as the number of shares to be issued (by the absorbing or new company) and "B" the number of shares of the absorbed company, the proportion in the exchange of shares is "A"/"B". As there is never an exact relationship, there must be compensations covered in cash that must contemplate what mentioned above.
[8] Considering what the Equities are really worth in terms of merging.

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Ex: "C" is formed by issuing new shares 5 par value, acquiring "A" and "B" companies. Real value Equity of "A" 245.600€. Real value Equity "B" 160.000€.
Number of shares to issue by company "C":
Number of shares for "A" shareholders:
Number of shares for "B" shareholders:

There can also be participations in the companies affected, previous to the agreement of merger. In these situations, the participations shall be considered in order to calculate the number of shares to be issued[9].

Ex. "A" has 10,000 shares valued 29, 2 €/share absorbs "B" Equity value of "B" 119,568€. "A" participates in "B" in a 1%.
Number of shares to issue by company "A" =
Exchange Rate:
Difference in money:

4.3.6. Accounting for Mergers[10]

Before recording the process of merging, some technical questions shall be considered:

- Previous participations in the capital of combined companies
- Own equities hold by combined companies
- Reciprocal assets and liabilities

These questions will affect the calculation of the exchange ratio and number of shares to be issued by the absorbing or newly formed company. Once considered these aspects, the recording of the transaction will follows the next steps:

[9] In this case, the variable "Equities of absorbed companies" must be adjusted by the real value of the participations.
[10] For pedagogical purposes we are considering no reverse acquisitions, no participation between companies and no relationship before the combination. In such situations there should be an entry in the combined organization settling reciprocal assets and liabilities:

Acquirer & acquired Liabilities	Debit	
Acquirer & acquired Assets		Credit

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- Dissolved Companies

Record Compensation accounts

Amount	Debit	Date	Credit	Amount
	(28x) Accumulated depreciation (29x/39x/49x) Impairment of…		(XXX) Assets	

Trespassing of assets and liabilities to the absorbing or new company

Amount	Debit	Date	Credit	Amount
(Book`s Value)	(XXX) Liabilities *((676) Results of merging*)* (xx)Shares from Absorbing Company		(XXX) Assets *((776) Results of merging *)*	*(Book`s Value)*

**Debit or credit, depending on the difference between real value and book`s value*

Amount	Debit	Date	Credit	Amount
	((776) Results of merging)* ((129) P/L Period)		*((676) Results of merging *)* *((129) P/L Period)*	

Closing Equity accounts

Amount	Debit	Date	Credit	Amount
	(100)Share Capital (11X)Reserves (120) Retained earnings (12X) P/L Period		(108/109) Own shares* (121) Prior period`s losses (5531) Shareholders, merger accounts	

**Own shares must be written off.*

Shares from absorbing company to Shareholders of Dissolved Company

Amount	Debit	Date	Credit	Amount
	(5531) Shareholders, merger accounts		(xx)Shares from Absorbing Company	

- Absorbing Company ("C")

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Reception of assets and liabilities from absorbed company

Amount	Debit	Date	Credit	Amount
(Real Values)	(XXX) Assets*		(XXX) Liabilities** (5530)Shareholders, Dissolved Company	*(Real Values)*

**Including when corresponds (204) Goodwill.*
***Including Tax liabilities (479) Liabilities arising from taxable temporary differences These are deferred tax liabilities consequence of the increases in value of the assets of the absorbed company, to be recorded in the absorbing one[11].*

Increase in Share Capital

Amount	Debit	Date	Credit	Amount
	(190) Issuing Shares		(100) Share Capital (110)Share Premium*	

**Shares are usually issued with a premium to pay old shareholders for the value of their shares*

Trespassing of issued shares to new shareholders of dissolved companies

Amount	Debit	Date	Credit	Amount
	(5530)Shareholders, Dissolved Company		(190) Issuing Shares (108)Own shares* (57x) Cash**	

**If these shares are used to pay the dissolved companies` shareholders*
*** Limit of the 10% of the par value of their shares (art 25.2).*

- Newly formed Company ("C")
  Forming of the Company

Amount	Debit	Date	Credit	Amount
	(190) Issuing of shares		(100) Share Capital	

Reception of assets and liabilities (Company "A" ***acquired****)*

Amount	Debit	Date	Credit	Amount
(Real Values)	(XXX) Assets*		(XXX) Liabilities** (5530)Shareholders, Dissolved Company "A"	*(Real Values)*

**Including when corresponds (204) Goodwill.*
***Including Tax liabilities (479) Liabilities arising from taxable temporary differences These are deferred tax liabilities consequence of the increases in value of the assets of the absorbed company, to be recorded in the absorbing one.(increase in value x tax rate%)*
Reception of assets and liabilities (Company "B" ***acquirer****)*

[11] Increase in value x tax rate%

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Amount	Debit	Date	Credit	Amoun t
(Book`s value)	(XXX) Assets		(XXX) Liabilities (5530)Shareholders, Dissolved Company “B”	*(Book`s value)*

Trespassing of issued shares to new shareholders of dissolved companies

Amount	Debit	Date	Credit	Amount
	(5530)Shareholders, Dissolved Company “A” (5530)Shareholders, Dissolved Company “B”		(190) Issuing Shares (57x) Cash*	

** Limit of the 10% of the par value of their shares (art 25.2).*

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