LONG-TERM INVESTMENT IN OTHER BUSINESS ORGANIZATIONS

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Abstract

In the presence global economic system the business world is everything else but not both peaceful and predictive. Therefore, every business organization needs attracted capital not only to be able to survive but and for its development. The clearness about as the moment situation, as well as future plans are received on the basis of accountancy.

As frightening as it sounds, the accountancy is actually is a systematic method for recording, reporting and analyzing of every financial transaction, which is directly connected with the business. Hence, the purpose of this article is to be made synopsis of the manner of business combinations' accounting over long-term investments realizing in other business organizations. The idea is to justify the optimal way for their accounting according to the Bulgarian legislation.

Key Words: Investments, Business Combinations, Accounting, Bulgarian Legislation.

INTRODUCTION

The investments in other business organizations are complicated area in economic practice. The complexity of the problems, arise not only from financial standpoint but also from according legal point of view.

Every investment is based over the plan of a good result. Every business organization's building and management is run with the thought of its prosperity. The aspirations are generally orientated to usher in new and innovation actions, enter into new markets, cope with competitors.

Similar purposes generally are achieved through a variety of obstacles. The reason is in market conditions, the market dynamic is high, and the competition is strong and cruel. Over this kind of conditions the desire for success and persistence are powerful but not enough factor. It is necessary a rank of other preconditions: financial resources, goodwill etc.

Under these circumstances it is not advisable for development only to presume on the equity resources. Then, this would be one considerable longer, slower process and this kind of delay could bring along negative results. Hence, it is more profitably to be use and attracted possibilities as join forces with one or more business organizations. With other words it is easier the purposes to be achieved through business combinations.

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According to economic theory the investment is connected main with investigation, design and assets' acquisition [Georgiev, 1999], return for money, which are usable in some activity [Petranov, 2010] and it has ability for bring income and other positive results for their owner for a long time.

The investment classifications enable accounting accurately and analyzing correctly on a using level as a result you could take quantitative solutions both on macro and on micro level. There are multiple classifications for investments but this which is of great interest at this article separate investments as internal and external.

Internal investments put a capital in business organization's main activity (for instance manufacture) nevertheless if the word is for investments in fixed assets, intangible assets or current assets.

External investments, commonly, put a capital in securities and equity capital in other businesses or in treasury bonds.

Long-term investments in other business organizations separate as:

- Investments in subsidiaries;

- Investments in related enterprises;

- Investments in minority (mixed) participation.

The questions related with business combinations are examined in accounting legislation and more specially IFRS 3 Business combinations, NAS 3 Accounting business combination, IAS 27 Consolidated and separate financial statements, IAS 38 Intangible assets. There are connection and a policy of taxation, mainly corporate income tax act, Commerce act, a small part of Obligations and contracts act and multiple other normative regulations.

Long-term investments in subsidiaries generally lead to business combination, which in keeping with IFRS 3 Business combinations accounts only by the method of purchase, i.e. the business combination "acquisition" already is the one and only business combination form.

The business combination could be structured in different way because of juristic or other causes when there is created relationship "mother-daughter", it is reflected into consolidate financial statement on the business organization – mother. The "mother's" independent financial statement is accounted long-term investment by IAS 27 Consolidated and separate financial statements (accordingly on the analogy of NAS 27).

In the Purchased Company has come to a juristic end because of acquisition will concern for purchases of net assets, which come after to be included in Acquisition Company's self-dependent report at fair value. The difference between acquired net assets' faire value and transaction value (paid) from the Acquisition Company is rendered an account as goodwill. As the case stands the difference could have different sign – positive or negative. In spite of all according to IFRS 3 Business combinations goodwill could be only positive.

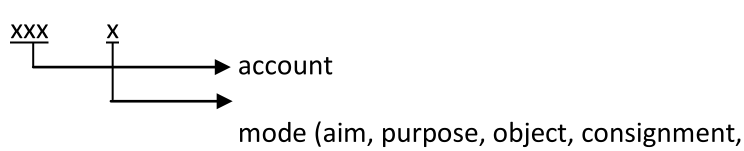
The questions, which should be asked, are: What does actually represent positive goodwill; Asset, expense or something on the average? The divergence is accounted by the manner, corresponding to the answers of the asked questions.

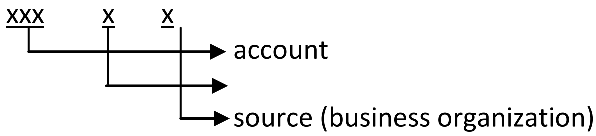
The goodwill as an expense demands enough arguments why Acquisition Company voluntarily pay a sum, which size overweigh the expected benefit for a given period. Provided goodwill is an asset, it is accepted that goodwill is an amount of qualities, which are not individually distinctive but we expect from them economic interest [Bonev, Dochev, 1999] and for that reason it is treated as tangible asset with special nature. The future interest arises as synergism between purchase distinctive assets or as assets, which don't answer (when they are separated) to requirements for their acknowledgment but for which the Acquisition Company is ready to pay.

In the present article we accepted the generally attitude that the positive goodwill is available when net assets' fair value overweigh the paid sum for them. In this case, it requires to be made a repeated assessment. And, if the trend confirms it should account immediately income.

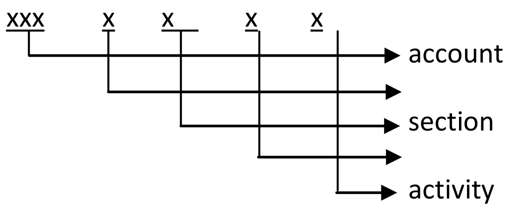
The business combination payment could stand with different resources: cash or cash equivalents, with other assets, whit taken liabilities or with equity capital instruments. When cash or cash equipment are not used then opposite operation has to be assessing over fair value.

For this purpose accounts are being used, which nomenclature could have following versions of structure:

1. 

2. 

In rarer cases it could be made more detailed nomenclature, as follow:

3. 

Apart from this, acquisition with cessation of the Purchase Company could be happen by stages. It is possible in the beginning to buy securities in Joint Stock Company and still to be not arising a business combination because of lack of control. On the next stage, the investor acquires control and account only long-term investment in “daughter” company. As the third stage, it is possible the investor to increase its participation and to take a step to ceasing the “daughter”. If the acquisition is gone through these stages, the following account articles will be composed:

1. For accepted demarcating assets:

Debit account: Assets

Credit account: Third parties counts for business combinations

2. For accepted liabilities:

Debit account: Third parties counts business combinations

Credit account: Liabilities

3. For settle investment’s account:

Debit account: Third parties counts business combinations

Credit account: Long-term investment

4. For extra paid sum, including for other expenses made for the business combination:

Debit account: Third parties counts business combinations

Credit account: Cash resources (accepting under condition)

5. For minority interest (if there is such):

Debit account: Third parties counts business combinations

Credit account: Registered capital

6. For arising positive goodwill:

Debit account: Goodwill

Credit account: Third parties counts business combinations

In case of Acquisition Company's share for fair value in net assets is bigger than the business combination prime cost (expenses for acquisition), the differences in the conditions of IFRS 3 Business combinations is immediate accepted as income:

Debit account: Third parties counts business combinations

Credit account: Income from business combinations

As it is known, investment in related enterprises (in default of other control) does not lead to reporting of business combination. It is possible, however, enterprises to be pooled of interest through one ordinary merger or acquisition by Commerce act.

The commerce practice has presented to us different kind of scenario of transforming companies, including acquisition too. For instance, when the investor A is ran into a company in which investor B has made investments, then the result from the developed scenario will be that the A and B investments will pass directly to A's owner. If we accept that A's owner is physical person, then after the acquisition it will be replaced from company A as a partner in company B. B's company registered capital doesn't chance because of the investment elimination.

The unification of separate business organizations in one general unit as a result of long-term investments are events with versatile manifestation. In the same time, the business combinations are interweaved with multiple juristic and accountants' problems but their structures contain different kinds of shades. All of this makes the matter very complicated and difficult to define.

This recommended model for a business combination reporting is reflecting the economic nature and outlined the suggestion for object's report characteristic. The application of this concrete model is a needed element at creation of complexity informational system for business organizations' activities. As a result, the influence over separate transactions and the process over result from the invest resources in other enterprises under the investments.

This investigation doesn't have the claim on using all arguments. We hope that the achievement presents this complicate subject clearly and in a more popular way but not as a simplification. We hope, in the same time, that the presented information has significance and is one modest contribution to this attitude.

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