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Ekonomický časopis

Provided in Cooperation with:
Slovak Academy of Sciences, Bratislava

Reference: Gláserová, Jana/Otavová, Milena (2019). Aspects of cross-border mergers of Czech enterprises within the Visegrad Group. In: Ekonomický časopis 67 (8), S. 837 - 856.

This Version is available at:
http://hdl.handle.net/11159/4236

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Aspects of Cross-Border Mergers of Czech Enterprises within the Visegrad Group

*Jana GLÁSEROVÁ – Milena OTAVOVÁ**

Abstract

The paper deals with the cross-border mergers of Czech enterprises within the Visegrad Group countries. It contains an analysis of the total number of cross-border mergers carried out in the years 2008 – 2016. This analysis has become the starting point for assessing the development of cross-border mergers in the years mentioned above, i.e. since the introduction of the Business Transformation Act into Czech law. An investigation was also made into whether there is an outflow of companies from the Czech Republic or whether the Czech Republic becomes the principal place of business for the successor company. The identified motives for mergers were verified through some indicators of the financial analysis of data about the merging companies. The issue of cross-border mergers is largely related to tax and accounting implications, which can be looked upon as motives for or barriers to merger implementation. In terms of taxes, the issue of transferring tax losses is examined as one of the motives for conducting mergers. In terms of accounting, some new items added to the final accounts are studied, and their impact on the balance sheet, profit and loss, and owner's equity is evaluated.

Keywords: *cross-border mergers, Visegrad Group countries, tax loss, goodwill, valuation difference on assets acquired*

JEL Classification: G34, K20, M21

Introduction

Legislative rules within European Union countries are gradually harmonized and unified. Nevertheless, there are still complications related to the implementation of EU directives, mainly due to a time lag in some countries, or to partial

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or inadequate implementation. Therefore, if two entities decide on planning a cross-border transaction, it is necessary to deal not only with the target country's legislation but also tax adjustments. A cross-border merger also means reporting new accounting items as a result of differences in valuation between Czech accounting legislation and the legislation of other EU countries where the merging companies are incorporated. The transformation of the company by itself also has an impact on major items of final accounts, particularly on the balance sheet, owner's equity, and profit and loss. The implementation of mergers throughout the entire European Union is governed by Directives issued by the European Commission, namely the Third Council Directive No. 78/855/EEC of 9 October 1978 on mergers of public limited liability companies and the Tenth Directive 2005/56/EC of the European Parliament and of the Council of 26 October 2005 on cross-border mergers of limited liability companies (Skálová, 2014). Furthermore, in an effort to facilitate adaptation of the companies involved to the conditions of the internal market and to promote their productivity and competitiveness, Council Directive 90/434/ECC on the common system of taxation applicable to mergers, divisions, transfers of assets and exchanges of shares concerning companies of different Member States was issued. The Directive's aim is to help overcome problems associated with a wide variety of tax regulations in individual Member States of the European Union. Although the EU's efforts to facilitate the implementation of cross-border mergers are evident, their number is still not high enough. In the Czech Republic, there were a larger number of cross-border acquisitions carried out in the past years, but they were implemented through legal procedures other than cross-border mergers, mainly through doing business abroad through a subsidiary or a branch (organizational unit) abroad. Žárová and Skálová (2012) gives obstacles that may lead to a smaller number of cross-border mergers; these are e.g. different rules of law in individual countries and subsequently different approaches to asset valuation for the purpose of trade law and accounting purposes; furthermore, in some accounting situations there are no harmonized rules because the Directive gave too much freedom to EU Member States, which causes complications or even impossibility to carry out a cross-border merger. Last but not least, there is also a tax advantage for domestic mergers over cross-border mergers.

1. Objective and Methods

The aim of the paper is to identify the aspects of cross-border mergers of Czech enterprises within the Visegrad Group countries (hereinafter V4). On the basis of the analysis of the cross-border mergers of Czech companies conducted in the year 2008 – 2016, it will be found out whether in the cross-border mergers the Czech Republic becomes the place of business for the successor company or whether there is an outflow of companies from the Czech Republic. The aim of the paper is to identify the main motives for mergers. The starting point for the identification were the studies carried out so far, the insight into the projects of implemented mergers, and also the questionnaire survey conducted. The effectiveness of cross-border mergers was assessed using some indicators of financial analysis. The observed development of values was compared with the development of industries. The issue of cross-border mergers is also closely related to tax and accounting aspects that can also be understood as motives for or barriers to their implementation. For this reason, a detailed analysis of these aspects, including the evaluation of possible impacts, was undertaken.

A prerequisite for achieving this aim is an analysis of the legal, tax and accounting aspects of merger implementation. These are predominantly the Business Transformation Act, the Income Tax Act, and the Act on Accounting in the V4 countries.

As cross-border mergers are not reported separately in the Czech Republic, the Business Journal was used as a source of information. More detailed information about businesses based in the Czech Republic and involved in cross-border mergers was searched for on the portal of the Czech Ministry of Justice (www.justice.cz), where there is the Collection of Documents containing information about the draft terms of mergers and final accounts. The data were arranged in tables. To verify the motives for mergers, selected ratios of financial analysis that evaluate the main aspects of business management were used. Their calculation was based on the financial statements of selected companies covering a period of three years before the merger, the year of merger, and three years after the merger.

The following indicators were used:

1. Total Debt Ratio:

$$Total\ debt\ ratio = \frac{Total\ Debts}{Total\ Assets}$$

2. Interest Coverage:

$$Interest\ Coverage = \frac{EBIT}{Interest\ charges}$$

3. Economic Value Added (EVA):

$$\mathrm{EVA} = (\mathrm{ROE} - \mathrm{re}) * \mathrm{VK}$$

The motive for greater market power was verified using the EVA indicator and was based on the development of net profit. The motive for access to cheaper capital was verified using the indicator of total indebtedness and interest coverage.

The paper is written using scientific methods such as the method of description, comparison, analysis, and synthesis. Also, the methods based on the principles of logical thinking, especially the deduction method, are employed. In the final part of the paper, the conclusions are formulated using synthesis.

2. Analysis of Cross-border Mergers in the V4 Countries

From the year 2008 when Act No. 125/2008 Coll. on the transformation of companies and cooperatives came into force until 2016, there were a total of 19 mergers within the Visegrad group, in which the disappearing company had its registered office in the Czech Republic. During the same period, a total of 62 foreign companies carried out mergers into the Czech Republic. All these mergers were mergers by acquisition. The reason for mergers by acquisition is the fact that it is not required to revalue the assets of the disappearing company, provided the assets of the surviving company are not increased by the assets of the disappearing companies. This is an important reason predominantly with regard to cost savings and reduced administrative burden on the companies involved. The following tables show the numbers of successful cross-border mergers by acquisition of Czech companies within the V4 countries.

Table 1

Cross-border Mergers – Companies with the Registered Office in the Czech Republic

From the Czech Republic into the V4 countries	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
Slovakia		2	4	4	1		1	1	5	18
Poland									1	1
Hungary										0
Total	**0**	**2**	**4**	**4**	**1**	**0**	**1**	**1**	**6**	**19**

Source: Author's own work based on the Business Journal.

Table 2

Cross-border Mergers – Successor Companies Based in the Czech Republic

From the V4 countries into the Czech Republic	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
Slovakia		2	5	3	7	9	7	12	12	56
Poland		1	1				1	1	1	5
Hungary			1							1
Total	**0**	**3**	**7**	**3**	**7**	**9**	**8**	**13**	**13**	**62**

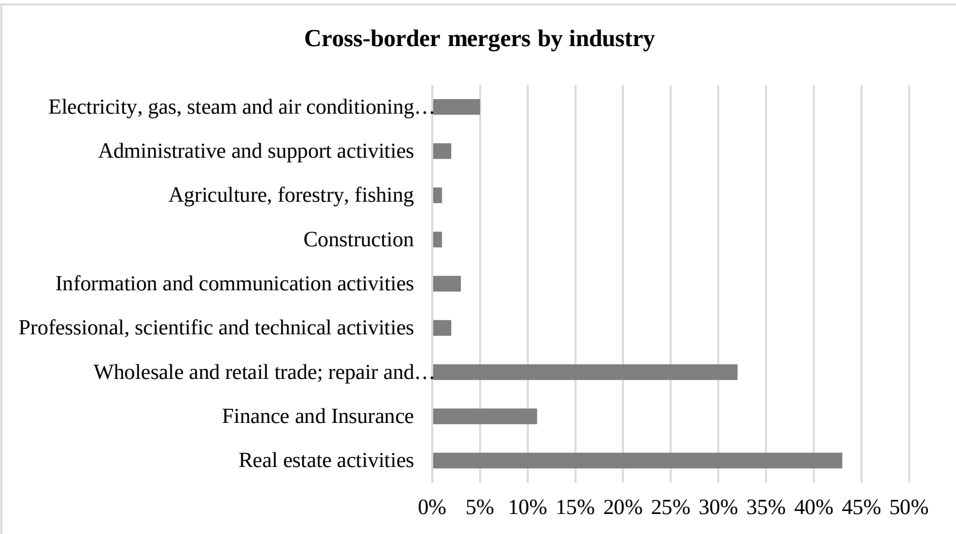
Source: Author's own work based on the Business Journal.

From the tables above, it is clear that the Czech Republic mostly holds the position of the target destination and becomes the place of business for the successor company, while Slovakia is the country with which most mergers are carried out. It is also noteworthy that there was a gradual increase in cross-border mergers from the year 2012. This can be attributed to the amended Act on Transformations which made changes of the effective day of transformation.

As for the number of mergers by industry, most cross-border mergers occurred in the real estate sector followed by sectors such as wholesale and retail, finance and insurance other sectors of cross-border mergers are shown in the graph below.

G r a p h 1

Sector Analysis of Mergers



Source: Author's own work.

3. Motives for Cross-border Mergers and Evaluation of their Effectiveness

In literature, there are a lot of reasons why companies carry out mergers by acquisition. According to Gaughan (2015), mergers can be classified into horizontal, vertical, conglomerate and congeneric depending on the relationship between the companies involved. Mergers can also be categorized according to the registered office of the participating companies as domestic and cross-border. According to (Erel, Liao and Weisbach, 2012), it is predominantly geography that plays a major role in cross-border mergers and also the fact that every country has its own cultural identity. The most common reason for cross-border and domestic mergers is to enhance market power, as stated by (Salachová et al., 2014). (Brealey, Myers and Allen, 2014) add that the value of combined companies is greater than the sum of the values of individual units. By merging, companies can set higher prices to increase profits. This practice is, however, supervised in the Czech Republic by the Office for the Protection of Competition (Sedláček, 2013). Market power is related to operational and financial synergy and management effectiveness. These four motives are placed into one comprehensive category "Effectiveness". It can, therefore, be assumed that by achieving these objectives the merged companies will get a higher debt service ratio, better know-how, new markets and better management. The study of Lexidale (2013) on the transposition of the Directive on cross-border mergers into rules of law of all EU Member States defines fundamental motives for cross-border mergers. These include a synergistic effect when companies want to enter a new market, a reduction in organizational costs, which can be achieved by joining subsidiaries from the Member States, which leads to the restructuring of the group, which subsequently brings savings, e.g. when the general meeting is convened. The resulting synergy from business transactions can be expressed according to Gaughan (2013) by NAV (Net Acquisition Value):

$$NAV = [VAB – (VA + VB)] – (P + E)$$

where VAB is the value of Company AB, VA is the value of Company A, VB is the value of Company B, P is the premium paid for B, and E is conversion costs. The value in square brackets shows the synergistic effect. This effect must be greater than the sum of P + E if the merger is to be evaluated as a success from the aspect of the synergy effect. Another reason is to reduce law enforcement costs in different countries, which is connected with law enforcement cost savings in the country where the disappearing company had its registered office. The last reason cited is tax planning whereby the merging companies can benefit from the more favourable tax regime that is related to the registered office of the successor company.

According to Sherman (2011), the following factors must always be taken into account before the merger is implemented: competitiveness, market position within the industry, access to capital and its costs, management capabilities, potential growth opportunities and a customer base. At the same time, it is also necessary to monitor the degree of regulation of the sector in which the company operates.

Consideration of these factors is important in view of the fact that according to some studies, e. g. *Why do up to 90% of Mergers and Acquisitions Fail?* (Business Chief, 2015), 70 – 90% of mergers and acquisitions fail.

The main causes of failure according to (Janišová and Křivánek, 2013) are insufficient visions, misunderstanding of cultural differences, unrealistic positive expectations, a lack of planning and poor management after transformation, and unclearly defined goals. According to the study *Post-Merger Integration* (Merrill Datasite, 2009), conflicts in goals and strategy, poor communication and conflicts between management interests were identified as the most common causes of failure. On the other hand, the results of the study conducted by Deloitte in the year 2015 on the merger success rate showed that 67% mergers were evaluated as successful (McGee, Treveal and Rusell, 2015). Also, the study carried out by PwC in the years 2008 – 2010 evaluated strategic success, financial and operational success (Nahass, Smith and Curagh, 2014). It was found out that 64% of respondents felt strategic success, 49% financial success and 38% operational success.

Our investigation into the draft terms of the cross-border merger of Czech companies revealed that one of the most cited reasons for the merger was the reduction in organizational and administrative costs. This is also confirmed by the questionnaire survey that Sedláček (2013) did among the merging companies. In conclusion, it was found out that the most important reason given by the companies surveyed was the reduction in the administrative burden, and in the area of taxes, it was the possibility of transferring tax losses.

Part of the study was also the questionnaire survey whose primary output was the identification of motives for and barriers to cross-border mergers. The information was obtained through queries and telephone calls to responsible persons. All 16 successor companies that merged in the period under review (see below) were addressed. Relevant information was provided only by six successor companies. The main motive for the merger, namely greater market power, was confirmed by four respondents. One respondent said that the main motive was expansion into growing sectors and one respondent reported cost synergy. Other less important motives reported were geographical growth, investment opportunities and a reduction in the number of competitors and access to cheaper capital. The main barrier to the merger was the difficulty of its implementation. After the merger was implemented, a big problem was with employee and customer retention. In order to verify the motives for the mergers, selected ratios of financial analysis were used. They enabled to verify the motive for market power growth and the motive for access to cheaper capital.

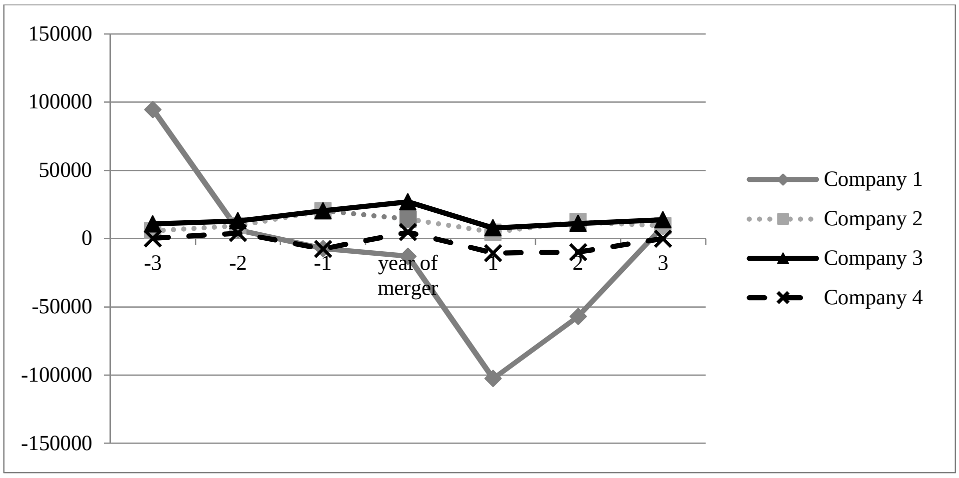
There are not many cross-border mergers of Czech companies, and so the sample for financial analysis was small. It became even smaller because it was narrowed down only to businesses that had published all their final accounts for the period covered in the Collection of Documents of the Companies' Register and had already existed three years before the merger.

To evaluate the effectiveness of cross-border mergers, the companies merging with the companies in Slovakia were chosen because these are the most common mergers of Czech companies. The list was narrowed down to the companies whose successor company after the merger has its registered office in the Czech Republic, and which had published the final accounts in the Companies' Register for the years covered by the study and which had already existed three years before the merger. The companies chosen were those that merged in the years 2012 and 2013. Thus, it is possible to assess selected ratio indicators in a period of three years before the merger and three years after the merger. This time interval is determined on the basis of previous studies, e.g. the study of (Martynova and Rennebook, 2008). Unfortunately, out of the total number of 16 enterprises, only four met the requirements. These enterprises operated in the industries, which were assigned the following NACE codes: CZ NACE 4754, CZ NACE8219, CZ NACE 4674, and CZ NACE 6831.

3.1. The Motive for the Merger: Market Power Growth

As stated, the common motive for mergers is to gain greater market power, which contributes to profit increase. Graph 2 shows the development of net profit of the companies over the selected period.

Graph 2
Development of Net Profit



Source: Author's own work.

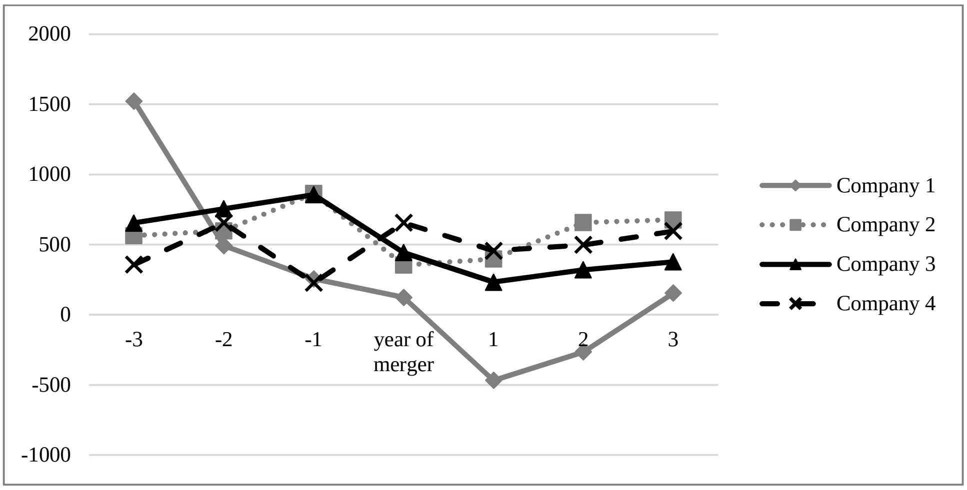
The graph shows that the net profit developed in a similar way in all companies over the whole period. One year after the merger, the profit of all companies dropped (a significant fall in one of them), then it gradually stabilized and even slowly improved. It is possible to state a positive trend of the development of the indicator values in the companies surveyed, considering the correlation of the values of the industries. However, in relation to the sector under investigation, the positive impact of the merger alone cannot be confirmed and a longer period of time in which the impact of the transaction costs of the merger would be minimized can be recommended.

Economic Value Added

Another test indicator is Economic Value Added (EVA). It assesses the performance of the company. This metric is important especially for business owners.

Graph 3

Development of the EVA Indicator



Source: Author’s own work.

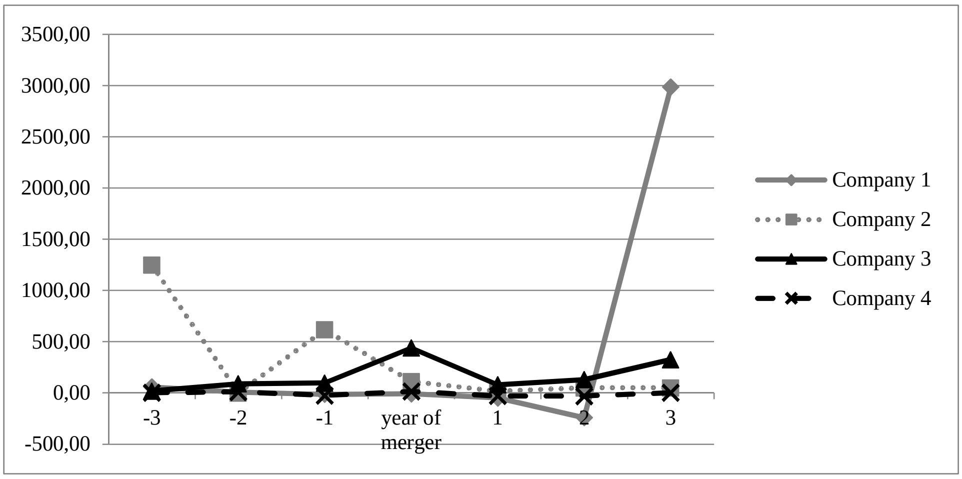
It is clear from the graph that there is often a decrease in this indicator before the merger as well as in the year of the merger. Then there is a tendency to grow, which can mean better business performance. This is a signal that companies have created value.

3.2. The Motive for the Merger: Access to Cheaper Capital

The necessity to finance an enterprise from debts and the choice of capital structure is dependent on the cost of capital. One of the possibilities of accessing cheaper capital can be the merger that produces a synergetic effect. This motive will be verified using the indicators of the development of interest coverage and total indebtedness of the company.

G r a p h 4

Interest Coverage Development

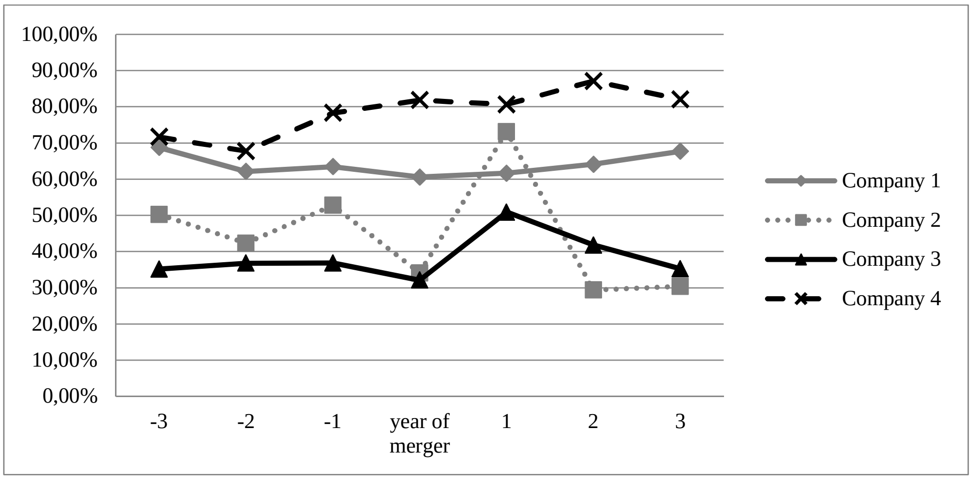


Source: Author's own work.

The graph shows that after the merger the value of interest coverage increased quite significantly in some companies. This development does not correspond to the trend in the sectors, so the cause of this development can be attributed to the merger. This is a positive result, which is reflected in the lower cost of capital.

G r a p h 5

Development of Indebtedness



Source: Author's own work.

Graph 5 illustrates the development of indebtedness compared with the growth of interest rates for loans granted to enterprises by banks. In the years 2009 – 2015, the interest rates for loans after a modest rise in 2010 dropped until 2015, which may have an impact on the growth of debt as businesses can take advantage of cheaper debt financing. One year after the merger, some companies show a visible increase in indebtedness, which is subsequently reduced and stabilized. However, it is not possible to demonstrate unambiguously that there is an impact of the merger on the development of this indicator.

4. Tax Motivation for Cross-border Mergers

The transfer of the tax loss is an important motive for the merger but it must not be the main or the only reason, as it is enshrined in Article 11 of Council Directive 90/434/ECC, under which a Member State may refuse to provide tax advantages. The aim is to prevent companies from using mergers by acquisition for tax evasion or tax avoidance. Council Directive 90/434/E on the common system of taxation applicable to mergers, divisions, transfers of assets and exchanges of shares, which was implemented in the Czech Republic by Act 438/2003 Coll., amending the Income Tax Act, following the entry of the Czech Republic into the EU, is the sound basis for the transfer of tax losses between entities as a result of mergers. Removing tax barriers involving taxing capital gains at the company and the partner level is the main objective of the Directive. The aim of the Directive is to achieve the principle of fiscal neutrality, i.e. the merger does not result in the taxation of capital gains calculated as a difference between the actual value of the transferred assets and liabilities and their value for tax purposes. Member States may, in accordance with the Directive, take two different approaches to asset revaluation during the merger. It is the principle of fiscal continuity and fiscal discontinuity. The following table shows which principle is implemented into the rules of law of the Visegrad Group countries.

Table 3

Approach to Asset Revaluation in the Merger

	Principle of fiscal continuity	**Principle of fiscal discontinuity**
Czech Republic	Yes	No
Slovakia	Yes	Yes
Poland	Yes	No
Hungary	No	Yes

Source: Author's own work based on (Žárová and Skálová, 2012).

The table shows that the Czech Republic chose the fiscal continuity option, i.e. non-taxing of capital gains at the company or the partner level. The revaluation of assets and liabilities at fair value carried out during the merger and recorded in the accounts does not have any tax consequences. The tax values are taken over by the successor company and are used for further tax assessment of property transactions. Similar legislation was also chosen by Poland, while Hungary opted for fiscal discontinuity. It is true that the merger will result in the revaluation of assets and liabilities, the determination of new prices for tax depreciation purposes, and the taxation of capital gains. The Slovak legislation, however, allows both approaches, so the tax entity has the right of choice. This is a significant factor in connection with the small number of mergers with Hungary in both directions, as Table 2 shows there is only one completed merger into the Czech Republic.

The assumption of the tax loss during the merger is regulated in the Czech Republic in Section 23c (8) b) of Act No. 586/1992 Coll. on Income Taxes. According to this Act, the successor company may take advantage of reducing the tax base by the unapplied tax loss of the disappearing company for five tax periods immediately following the occurrence of the loss. In Section 38 of the Income Tax Act, it is also stipulated that this assumed loss can be applied and deducted from the tax base up to the amount of the base that is attributable to the same activities of the disappearing entity, in which the loss applied arose. This part of the tax base is calculated as the ratio of the amount of revenues from the activities that were the same as those performed by the disappearing company to the total amount of revenues of the successor company from all its activities. However, the merger cannot be motivated by the application of the tax loss and subsequent tax avoidance, if there are not any other economic reasons for the transformation. In the Czech Republic, there is a condition that general partnerships or limited partnerships cannot assume or transfer the tax loss in the merger. This may lead to a feeling of discrimination, as pointed out by Sedláček (2013), and therefore, it would be appropriate to extend the possibility of applying tax losses to these companies, too.

In the case of cross-border mergers, the application of the tax loss as an item deductible from the tax base is much more complicated. It is true that the successor company is entitled to assume the tax loss assessed to the disappearing company that has not been applied yet.

If the disappearing company is the taxpayer that does not have their premises in the Czech Republic, it is possible to assume the tax loss incurred to the disappearing company in another Member State if not applied in that State. Another condition is that the assumption of the tax loss can only be up to the amount of tax loss that would be determined according to the Income Tax Act if the disappearing company was the taxpayer with the registered office or the place of management in the Czech Republic.

Table 4 shows the corporate tax rates as well as the effective tax rate for the Visegrad Group countries in the years 2008, 2012 and 2016. These are the years closely related to the changes in the legislation on corporate transformation. The table also indicates whether the tax loss can be applied and in which period, i.e. the number of years immediately following the occurrence of the loss, whether the tax loss can be applied in the cross-border merger by the successor organization and whether there are any restrictive conditions on its application.

Table 4

Tax Rates Increased by Surcharges and the Possibility of Tax Losses

	Corporate tax rate in %			**Effective tax rate in %**			**Possibility of applying the tax loss – number of years since its reporting**			**Application of losses in merger**	**Specific conditions**
	2008	2012	2016	2008	2012	2016	2008	2012	2016	x	x
Czech Republic	21	19	19	19	16.7	16.6	5	5	5	Yes	Yes
Hungary	21.3	20.9	20.6	19.5	19.3	19.1	No limit	No limit	5	Yes	No
Poland	19	19	19	17.4	17.5	17.5	5	5	5	No	No
Slovakia	19	19	22	16.8	16.8	19.4	5	7	4	Yes	Yes

Source: Author's own work based on the Baggerman et al. (2016), Boeijen-Ostaszewska and Schellekens (2012), Kesti (2008).

It can be seen from the table that only in Hungary and Slovakia there was a change in the conditions for tax loss application between the years 2008 and 2016. This change related to the number of years during which the tax loss can be applied in the tax periods following its assessment. In the cross-border merger, it is not possible to apply the loss by the successor company based in Poland. In the Czech Republic and in Slovakia there is a possibility of assuming the tax loss, however, there are some restrictive conditions on its application. The tax loss can be assumed if the merger is not motivated by tax reduction or tax evasion. Moreover, in the Czech Republic, the successor company must carry out a similar activity as the disappearing company, otherwise the loss cannot be assumed. In Hungary, the tax loss can be assumed; there are no additional restrictive conditions.

5. Accounting Aspects of Cross-border Mergers

As for the cross-border mergers of companies, two situations requiring a different approach to this process can arise – whether the Czech company is the disappearing or the successor company. From the moment the effective day of the merger is set, the Czech entity has certain obligations that are set out in the

Act on Accounting. In any case, the Czech company (whether the disappearing entity or the successor entity) must prepare final accounts as at the date preceding the effective day. If the Czech company is the successor company, it prepares the opening balance as of the effective day. The situation can be complicated by the fact that in foreign (European) companies the day from which the transactions shall be treated for accounting purposes can be different. In the Czech Republic, the accounting effects are valid from the effective day, in Slovakia from the date of dissolution of the company without going into liquidation and for example, in Poland from the date of entry in the Companies' Register.

The successor company based in the Czech Republic will begin to account for the assets of the disappearing company on the effective date when it compiles the opening balance sheet. The preparation of the opening balance sheet is based on the final accounts of the disappearing company. If there are no changes in the valuation of individual items of assets and liabilities, it is basically possible to compile the opening balance as the sum of these items, afterwards mutual shares, receivables and payables are excluded, if these entities formed the capital tie-up. The second option is to build on the accounting of the successor company while it is necessary to adjust the original final accounts of the disappearing companies, e.g. valuation at fair value, including or excluding some items, foreign currency translation, etc.

The revaluation in mergers can be accounted for by two different methods, i.e. the goodwill method or the method of valuation difference on assets acquired. The choice of the method depends on the obligation of the company to account for the revaluation and on whether the company has the expert valuation of individual items of assets and liabilities or only the expert valuation of the entire enterprise.

The goodwill method is used when the valuation of total assets and their individual items is available; goodwill then represents the difference between the value of the enterprise as a whole and the sum of the values of individual items. By this process, in the successor company's accounting there is a new item of equity "*Valuation differences from revaluation in business transformations*" and an item "*Goodwill*" as an intangible asset. If the company has only the valuation of the enterprise as a whole, the method of valuation difference on assets acquired is used. This is the difference between the appraisal by an expert's report and the amount of the book values of individual assets less the value of liabilities. With this method, accounting is done on correlative accounts "*Valuation difference on assets acquired*" and "*Valuation differences from revaluation in business transformations*". The result is that there is always an increase in the balance sheet.

The following situations can occur in the cross-border transformation:

- The final accounts of the foreign disappearing company include the revaluation at fair value, complying with Czech legal standards. In this case, the book values of the foreign company can be taken over.
- The final accounts of the foreign company do not include the revaluation at fair value; the Czech legislation does not require the revaluation. Also, in this case, the book values of the foreign company can be taken over.
- The final accounts of the foreign company do not include the revaluation at fair value (or this revaluation does not comply with the Czech Transformation Act) and it will be necessary to revaluate at fair value under Czech law. This revaluation will then be reflected in the opening balance sheet of the Czech successor company.

If the Czech company is the disappearing entity and the successor is the foreign company, the Czech accounting entity does not have to charge for the valuation at fair value, which is certainly simplification for this company (Skálová, 2015).

Companies listed in EU countries are required to prepare their final accounts in accordance with International Financial Reporting Standards (IFRS). If there is a merger between companies using IFRS, it is in conformity with IFRS 3 Business Combinations.

The merger process under IFRS is in some aspects very different from Czech accounting legislation. The following table shows a comparison between Czech accounting adjustments and IFRS in some important aspects of mergers.

T a b l e 5

Comparison of Czech Accounting Legislation and IFRS

Situation	Czech Accounting Legislation	IFRS
Combinations of corporations	Does not solve the merger of corporations as one whole. The legal adjustment is, moreover, included in more standards.	The merger of corporations is primarily included in IFRS 3 Business Combinations.
Acquisition of ownership	The definition of the acquisition of the ownership of the corporation is not included in Czech accounting legislation; it is based on the Civil Code.	The date of acquisition when the acquirer takes control of the business is the content of the standard.
Valuation of assets and liabilities	Assets may be taken over at the net book value of the original corporation or individually revaluated (by an expert). Liabilities are always at nominal value and cannot be revaluated.	Assets and liabilities are valued at fair value.
Valuation difference	There is a new item “Valuation difference on assets acquired” as part of tangible assets, which is depreciated.	According to IFRS, valuation difference is not possible.
Goodwill	There is a new item “Goodwill” as part of intangible assets, which is depreciated.	According to IFRS, there is also goodwill, which is not depreciated.

Source: Author’s own work based on legal standards.

The situations under Czech Accounting Legislation and IFRS differ, in particular, in recognizing the new items and their presentation in the financial statements of the companies involved. While in Czech accounting the valuation difference, which is part of tangible fixed assets, may arise during transformation, under IFRS this is not possible as the standards do not allow to take over assets of the disappearing company valued at book value. The valuation difference can be either active or passive. If active, this new item of assets is depreciated using the indirect method for 180 months evenly in operating costs, if passive, in operating income.

Another newly added item is goodwill, which can also be passive or active and is a component of long-term intangible assets. Active goodwill arises when the cumulative revaluation of the acquired company is greater than the sum of the individually revaluated components of assets and liabilities of the enterprise. This corresponds to goodwill arising under IAS/IFRS. Passive goodwill may arise under Czech Accounting Legislation in the opposite case. This item, in accordance with IAS/IFRS, is reported in the financial statements in a completely different manner, namely as the one-off gain from the bargain purchase in the balance sheet liability in the year of the merger.

Another significant difference is the method of accounting for goodwill. Under Czech Accounting Legislation, goodwill is depreciated using the indirect method in the case of active goodwill for at least 60 months (for 120 months at a maximum) evenly in operating expenses, in the case of passive goodwill in operating income. However, under IFRS active goodwill is not depreciated. It is, however, tested in accordance with IAS 36 – Impairment of assets. Passive goodwill represents the gain from the bargain purchase, i.e. it will increase the profit but only once, in the year of creation of this item. The table below shows the impact of the newly created accounting items.

Table 6

Comparison of Czech Accounting Legislation and IFRS

Czech Accounting Legislation/IFRS	**New item in final accounts**	**Balance sheet**	**Equity**	**Profit/Loss**
Czech Accounting Legislation	Positive valuation difference	↑	↑	↓ (depreciation)
	Negative valuation difference	↓	↓	↑ (depreciation)
IFRS	Item does not occur			
Czech Accounting Legislation	Positive goodwill	↑	↑	↓ (depreciation)
	Negative goodwill	↓	↓	↑ (depreciation)
IFRS	Goodwill	↑	↑	↓ (when real value is reduced)
	Gain from the bargain purchase	Item does not occur	Item does not occur	↑ (in the year of creation)

Source: Author's own work.

From the facts above, it is clear that there are significant differences between Czech legislation and IAS/IFRS. As the study revealed, the differences are not only in the concept of business combinations but also in accounting procedures, the valuation of assets and the creation of new items of final accounts. Differences can also be seen in disclosure requirements, which under IAS/IFRS must be in greater detail.

Considering the fact that most cross-border mergers of Czech companies are with Slovak companies, it is necessary to point out some important differences in accounting adjustments concerning the new items in the final statements. Compared with the accounting adjustments of the Czech Republic, Slovak accounting adjustments are closer to IAS/IFRS, but they are not exactly the same. In Slovakia, like under IAS/IFRS, there is an obligation to revaluate individual items of assets and liabilities at fair value. This suggests that the only new item in the financial statements under Slovak accounting legislation as well as IAS/IFRS is goodwill. However, under Slovak accounting legislation goodwill is accounted for only if there is a merger of the parent company and the subsidiary, as stated by Skálová (2014). The difference between Slovak accounting legislation is evident in comparison with Czech accounting legislation and IAS/IFRS. This concerns predominantly accounting for negative goodwill. Under IAS/IFRS it is recorded in profit increase (see above). The same effect is also in Slovak accounting legislation, but this time negative goodwill is recorded as a reduction in costs.

Conclusion

Cross-border mergers in the V4 countries were examined and evaluated comprehensively from various aspects, including an analysis of their number, an analysis of motives and barriers, tax and accounting aspects. Both quantitative and qualitative aspects were examined.

The analysis of the cross-border mergers of Czech companies with V4 enterprises showed that most cross-border mergers within the V4 countries were with the companies in Slovakia. Although the Slovak Republic has the legal, tax and accounting regulations similar to those adopted in the Czech Republic, there are a number of differences that can make the process of the cross-border merger quite complicated. In spite of this, these mergers account for 92% of all mergers that took place in the V4 countries. The results reveal that in most mergers the Czech Republic is the place of business for the successor company and only in a small number of mergers there is an outflow of companies from the Czech Republic. The importance of this finding can be confirmed by the fact that the information was difficult to find, as cross-border mergers are not separately recorded in the Czech Republic. It is therefore advisable to remedy this situation. The most common reason for cross-border mergers, which are almost always mergers by acquisition (a far less complicated process), is the increase in market power and also the concentration of capital. The study of the merger projects revealed that the main motive was most often the motive for reducing organizational and administrative costs. The motives for the merger were also identified using the questionnaire survey, which confirmed the motive for greater market power as the main motive.

To verify merger motives selected indicators of financial analysis were used. After the merger was completed, the companies in the study showed an increase in net profit and economic value added, which is a positive signal of better performance of the companies studied. Interest coverage developments suggest that after the merger its value increased. This confirmed the positive effect of the merger, which is reflected in reduced capital costs. Indebtedness increased one year after the merger, which might have been caused by higher merger costs, so the impact of the merger on the development of this indicator cannot be clearly demonstrated.

However, the results cannot be generalized, because out of the total possible number of 16 companies that merged in the years under study, i.e. 2012 and 2013, only four of them had published all the necessary information. With regard to the trends in the indicators monitored within the industry, the motive for access to cheaper capital is positively related to the merger. However, as for the motive for market power, it is not possible to unambiguously confirm the effect of the merger.

Other frequently discussed aspects of the merger include the possibility of assuming the tax loss of the disappearing company. Member States may, in accordance with the Directive, choose one of two approaches to asset revaluation during the merger. These are the principle of fiscal continuity or the principle of fiscal discontinuity. The V4 countries implemented these principles differently in their rules of law. The Czech Republic and Poland chose the principle of fiscal continuity. Hungary, on the other hand, chose the principle of fiscal discontinuity, and in Slovakia it is possible to choose between these two principles. This may be a partial barrier to cross-border mergers. In connection with the possibility of taking over the deductible item in the form of the tax loss of the disappearing company within the V4 countries, it can be concluded that Hungary has the most favourable conditions. In the Czech Republic and Slovakia, the tax loss is subject to restrictive conditions, in Poland the tax loss cannot be assumed by the successor company.

Also, in accounting, there are different procedures in connection with the new items of final accounts and their subsequent impact on the balance sheet, owner's equity and profit and loss. The existence of the new items as a consequence of possible asset revaluation was identified both from the viewpoint of Czech accounting legislation and IFRS and also from the viewpoint of the accounting procedures in Slovakia. By comparison of these accounting systems, significant differences were revealed in the presentation of the new items of the final accounts, including the evaluation of their impact.

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