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Current financial - accounting aspects of business combinations

ABSTRACT

on a dissertation for the award of the educational and scientific
PhD degree in the scientific specialty "Accounting, Audit and Analysis"

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The total volume of the dissertation amounts to 263 pages, 6 of which are in the form of appendices. It is structured in an introduction, an exposition in three chapters, a conclusion, a bibliographical reference and 3 appendices. 8 tables, 4 graphs and 2 figures are presented. The bibliography covers 259 sources, of which 40 are in Cyrillic and 219 are in Latin.

I. GENERAL CHARACTERISTICS OF THE DISSERTATION

1. Relevance of the researched topic

Business combinations are an invariable part of the corporate strategies of a number of companies. With their help, the various sectors of the economy are being restructured. They greatly facilitate companies in terms of their rapid global presence.

The infinite variety of business, like the atoms in the cell's nucleus, is constantly entering into many combinations and reactions. Business combinations resemble the nuclear reaction that transforms the cell nucleus, unlocking a huge amount of energy in the process. This energy must be properly directed and regulated so that it does not become a destructive force.

The combination of planned and accidental, between order and chaos is the most characteristic feature of business combinations of almost any kind. For the latter to be successful, the emphasis must be placed on honest business relations based on openness, mutual trust and understanding.

The issues chosen for scientific research are relevant not only from a practical - applied point of view in the increasingly accelerated business combinations, but also due to the lack of a complex scientific study of their accounting - economic nature, which determines the need for their in-depth and thorough study. Associations between entities generate interest not only in economic but also in legal reality.

2. Purpose and tasks of the research

The scientific - applied purpose of the study is to carry out a thorough review and, on this basis, a critical analysis of some of the theoretical aspects of business combinations and the development of their regulatory regulation, as well as to define and propose solutions to overcome the identified problems in connection with their presentation in the company's financial statements.

To realize the set goal of the research in the dissertation, the author sets himself the following research tasks:

- historical-logical justification of the development of the waves of mergers and acquisitions by means of a critical review and analysis of the publications of a number of foreign authors. In a historical-logical unity, their evolution in the period from 1897 to 2022 inclusive is examined;

- critical analysis of the normative regulation of business combinations in International Accounting Standards (IAS)/ International Financial Reporting Standards (IFRS);
- analyzing the development of legal and organizational regulation regarding mergers and acquisitions;
- detection of gaps and contradictions in the reporting of business combinations and formulation of guidelines for improving their presentation in the financial statements of companies.

3. Subject and object of the research

The object of the present study is business combinations.

The subject of research is the examination of both theoretical and applied aspects of the accounting of business combinations and their presentation in the company's financial statements.

4. Research thesis

The research thesis of this dissertation is that there are serious gaps and contradictions in the legal framework regulating the accounting recognition, evaluation and disclosure of business combinations. This requires the introduction of guidelines for refinement and improvement of the existing methods and approaches regarding their accounting presentation.

5. Research methodology

To achieve the main goal of the research and to solve the stated research tasks, a wide range of scientific tools is applied, which includes:

- historical approach;
- the methods of induction and deduction;
- system approach;
- comparative analysis;
- synthesis;
- method of analogy;
- combinatorics;
- factor analysis;
- descriptive analysis.

Undoubtedly, individual methods of scientific research have their own economic – cognitive significance and permanent scientific value, but only in unity do they reveal their full potential.

6. Limitations in the scope of the study

The research in the development of the dissertation was carried out under the following restrictive conditions:

- as we all know, for a long time the current business combinations have been carried out in the conditions of a globalizing environment, which is why the National Accounting Standards (NAS) in their role as a regulatory regulator remain outside the scope of the research;
- the review of the applicable tax regulation goes beyond the scope and scope of the work;
- the analyzed regulations and accounting standards in the dissertation are current as of 30.09.2022;
- public sector enterprises are not covered by the work.

The research, analysis and results of the dissertation work can be widely used both in the educational process of higher education institutions in the country, and by practitioners in the field of accounting, as well as by everyone who is interested in the problems under consideration.

II. STRUCTURE OF THE DEVELOPED DISSERTATION

Structurally, the present development is built on the basis of a systematic order based on the subject, the object, the goals and tasks of the dissertation work. The developed dissertation has the following structure:

Introduction

First chapter. Nature, historical development and motives for carrying out mergers and acquisitions. Legal - organizational framework regulating mergers and acquisitions as forms of transformation of commercial companies

1.1. Nature and historical development of mergers and acquisitions

III. SYNTHESIZED EXPOSURE OF THE DISSERTATION

Chapter One

NATURE, HISTORICAL DEVELOPMENT AND MOTIVES FOR CARRYING OUT MERGERS AND ACQUISITIONS. LEGAL - ORGANIZATIONAL FRAMEWORK REGULATING MERGERS AND INFUSIONS AS FORMS OF TRANSFORMATION OF COMMERCIAL COMPANIES

The first chapter of the dissertation, by means of a historical-logical characterization, presents the evolutionary development of mergers and acquisitions, as a result of which the distinctive characteristics of each of the six waves of the historical development of this economic phenomenon. Attention has also been paid to the individual motives for which mergers and acquisitions are carried out. In addition, the chapter introduces us to the legal - organizational framework determining the development of business combinations, in particular mergers and acquisitions.

Point 1.1. presents the nature and historical development of mergers and acquisitions. Almost everywhere in the English-language literature, in works examining the essence, historical development and motives for carrying out business combinations, the general term - mergers and acquisitions - is used to describe and define the latter[1] ,[2] ,[3] ,[4]. The concept is used when combining at least two companies, and in mergers two or more merging companies lose their economic and legal autonomy, which is why a new company is established - successor to their property. In acquisitions, one of the companies, called the acquiring company, buys the remaining company(ies) – the target company(ies) by exchanging shares, paying money, issuing debt instruments. The difference between a merger and an acquisition, as described above, is primarily of a legal nature.

Waves of mergers and acquisitions are the result of changes in economic conditions, regulatory requirements and technological developments. The above-mentioned exogenous factors give rise to structural changes in individual industries, which can be grouped by time

[1] Holgate, P., El. Buckley. Accounting Principles for Non-Executive Directors, Cambridge University Press, 2009, p. 101.
[2] Ernst & Young LLP. Mergers and Acquisitions, 2nd edition, John Wiley & Sons, 1994, p. 187.
[3] Ray, K. Mergers and Acquisitions: Strategy, Valuation and Integration, PHI, 2010, p. 560.
[4] Ankarath, N. and group of authors on the project. Understanding IFRS Fundamentals: International Financial Reporting Standards, John Wiley & Sons, 2010, p. 305.

and sector affiliation. A detailed review and in-depth knowledge of the historical development of mergers and acquisitions would significantly reduce many of the mistakes made in the process of business combinations, while at the same time minimizing the number of failed deals. In the historical development of waves of mergers and acquisitions (M&A) in the United States of America, six stages are known.

The wave we now call **the First Wave** of M&A was known to its contemporaries as "The Great Wave". The development of the national railway network made a significant contribution to its historical development. In the thirty year time span from 1870 to 1900, the total length of railroads grew from 52,922 miles to 194,262 miles[5] . The evolution in the railway transport system marks the beginning of direct competition with other manufacturers, with whom competition was previously impossible and unthinkable due to the existing geographical distance.

The majority of restructurings at that time were mostly horizontal and involved a number of companies. Horizontal is defined as this type of mergers and acquisitions, in which organizations with the same object of activity unite in order to increase the scale of their activity. The driving motive behind most deals during the first wave was to gain monopoly power.

Even the enactment in 1890 of the Sherman Antitrust Act, outlawing attempts and actions aimed at the formation of monopolies and combinations in any form that impede free trade, did not stop this period of intense activity. The number of companies in certain branches of the economy is drastically decreasing, and some branches even remain with one - a single representative.

Some of the largest corporations to date were formed precisely at the time of the Great Wave. Among them are: Standard Oil Co. of New Jersey (today Exxon Mobil), Dupont (today DowDuPont), US Steel (today US Steel USX), Goodyear (now Goodyear Tire & Rubber Company), Nabisco, Pittsburgh Plate Glass (now PPG Industries), General Electric, Eastman Kodak, International Harvester Company (now Navistar International Corporation), American Smelting and Refining (now Asarco), and a number of others. The slowing rate of economic growth in 1903, the stock market crash of 1904, and the subsequent banking panic (1907) brought to a natural end the otherwise flourishing wave of mergers and acquisitions.

[5] Heer, Fr. Ohio Archaeological and Historical Publications, The Society, Volume XXII, 1913, p. 82.

The second wave of mergers and acquisitions covers those sectors of the economy in which, at the time of the Great Wave, the exercise of monopoly power was inapplicable. Business mergers are taking place with the highest intensity in the following industries: food industry, chemical industry, printing industry, oil extraction and metal production. George Stigler, a Nobel Prize-winning economics professor, differentiated the first and second merger waves as "mergers for monopoly" versus "**mergers for oligopoly**". An oligopoly exists with a small number of relatively large producers controlling a significant portion of the market.

For the start of the second wave, a strong push is undoubtedly given by the mass entry of motor vehicles. The development of the transportation system affects the market in two ways. On the one hand, it gives sellers the opportunity to significantly expand their sales, on the other hand, it makes consumers far more flexible.

The experience gained during the Great Wave eloquently proves that the Sherman Act is extremely ineffective in the fight against monopolistic structures. This is why in 1914 it was replaced by the Clayton Act. Its main purpose is to protect the economy from unfettered monopoly power and prevent exploitation of consumers by charging them higher than competitive prices. Many legal experts regard the Clayton Act as the most significant and enduring antitrust statute ever enacted in the history of the American legislature.

Within the second period of the genesis of the waves of mergers and acquisitions, prominent corporations were formed that are still operating today - International Business & Machine (IBM), General Motors, John Deere (today Deere and Company), Union Carbide Corporation, etc. The stock market crash of October 29, 1929, a date known as Black Tuesday, marked the end of the second wave of M&A history.

The beginning of **the third wave** of the historical development of mergers and acquisitions coincides with the strengthened antitrust policy in the 1960s, which found expression in the laws adopted in 1950 Celler-Kefauver Act. It builds on the Clayton Act, closing an existing loophole. The law of the latter prohibits the acquisition of shares of other companies, in cases where the commercial transformation would significantly reduce the degree of competition within the industry. The Celler-Kefauver Act, in addition, prohibits anticompetitive acquisitions of assets owned by other companies. The regulatory act that entered into force prohibits horizontal and vertical mergers and acquisitions, as they create insurmountable barriers to market entry, strongly hindering free competition. The only option left is for companies to form

conglomerates. Conglomerates are less vulnerable to industry shocks because they generate income from different, unrelated industries.

During the period 1965-1969, it was not uncommon for relatively small companies to acquire companies much larger than themselves, an emerging trend that distinguished the third wave from the first two. Unlike the previous two waves, which covered only the United States of America, this one also included England and Continental Europe.

The collapse of the stock market and the oil crisis that broke out in the early 1970s put an end to the wave of conglomerate mergers and acquisitions.

In addition to the countries known to us from the "conglomerate wave", **the fourth wave also includes** the largest continent on planet Earth - **Asia**. During the fourth wave, hostile mergers and acquisitions initiated by large and established companies make their way. They even became a perfectly acceptable form of corporate expansion in the 1980s. Hostile takeovers are resorted to when the managers of the target companies (the target companies) reject friendly merger or acquisition offers made to them.

During the fourth wave, many enterprise giants were formed. The record high value deal during the fourth wave was the acquisition of RJR Nabisco by Kohlberg Kravis for 25.1 billion $. Gradually, non-American companies are starting to make their way in mergers and acquisitions. For example, in 1987, with the aim of faster entry into the American market, British Petroleum acquired Standard Oil in a deal worth $7.8 billion. Another distinctive feature of this wave is that a large part of the deals are financed with borrowed capital. This is the reason why many small businesses make M&A offers to companies much larger than themselves.

The antitrust policy created within the historical development of the fourth wave is the European Community Merger Control Regulation of 1989. The body that in Bulgaria observes compliance with the regulatory requirements is the Commission for the Protection of Competition (CPC).

The reason that led to the end of the fourth wave was the brief economic recession that broke out in 1990.

A large part of the transactions that took place during the fifth wave were of a markedly strategic nature. There are many consolidation deals taking place that are turning the market upside down. The business combination with the highest nominal value of the entire historical development of the waves of mergers and acquisitions was carried out precisely at the time of the fifth wave. For the sum of $202.8 billion through a hostile bid, the British giant Vodafone AirTouch acquires the second largest telecommunications company in Germany - Mannesmann AG[6].

The fifth wave differs from all its predecessors in that **it is international**. Globalization in terms of communications - the mass penetration of Internet technology has led to the emergence of entirely new industries and created competition that does not recognize geographical dimensions. Among the key factors that led to the boom of the fifth wave is the constantly falling long-term interest rate. A lower interest rate increases the present value of future cash flows, which in turn automatically leads to higher values of target companies. The result of the use of this instrument in the conduct of the monetary policy of the USA is not late - in the time interval from 1992 to 2000, the total value of all completed transactions on mergers and acquisitions reached unprecedentedly high levels compared to the previous four waves.

The fifth wave of mergers and acquisitions ended in 2001 due to the stock market crash and subsequent global recession. For 3 consecutive years (from 2000 to 2002), Wall Street recorded annual lower and lower turnover.

The Sixth Wave of M&A began in mid-2003 as financial markets in the United States, Europe, and Asia began to recover from the recession that led to the decline of the Fifth Wave. Although shorter in duration than all previous waves, the sixth wave is **the most intense both in terms of the number of completed mergers and acquisitions deals and in terms of their total value.** Worldwide, in 2007, 31 833 deals worth 2.69 trillion were announced. $[7].

Gradually, Asia is starting to make its way between the two prominent players in the global M&A market – Europe and the United States of America. In January 2007, for the sum of $12 billion, the Indian company Tata Steel acquired the British company for the production of steel and aluminum - Corus Group Plc, with which it became the fifth largest steel producer in the world with 84 000 employees and presence in as many as 45 countries.

The success of the transactions carried out during the sixth wave is largely determined by 3 key factors identified by Towers Perrin (a specialist consulting company) and scientists from Cass Business School (Oxford University). (cf. Figure 1.)

[6] Source: Thomson Financial Securities Database
[7] Source: Thomson Financial Securities Database

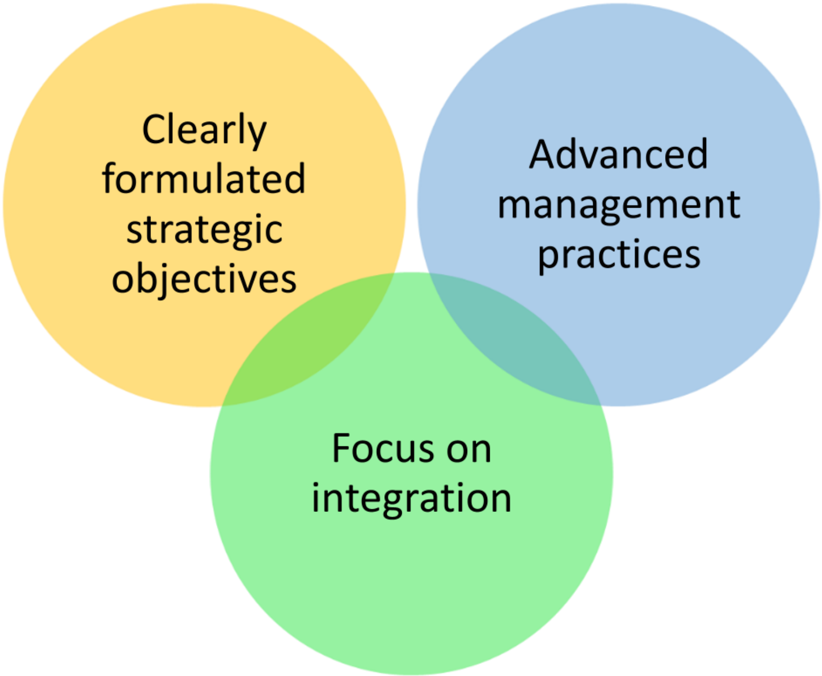

Figure 1. Key success factors for the sixth wave of mergers and acquisitions

The end of the sixth wave comes with the onset of the World Financial Crisis. In the United States of America, it began in August 2007 after the collapse of the real estate market and the ensuing credit crunch, and quickly spread to Europe.

According to some authors, we are witnessing a **seventh wave** of mergers and acquisitions, although it has not yet been formally identified as such. 2013 is taken as its beginning, and **it continues at the time of writing the dissertation**. Then the first signs of economic recovery began to appear in developed countries and mergers and acquisitions again became part of the corporate strategies of companies.

The reasons for conducting mergers and acquisitions transactions are presented in **point 1.2.** from the dissertation. Mergers and acquisitions deals are carried out with the idea of achieving certain managerial goals, and the motives behind their implementation predetermine the logical course of the accompanying commercial operations. It is at the closing of the transactions by comparing the expected and actual achieved goals that an assessment can be made as to how successfully the individual transactions were implemented. And while the main objective of any corporate restructuring program is to increase the profitability of the business and hence the welfare of the shareholders, the unusual nature of mergers and acquisitions predetermines the wide variety of motives behind their implementation, varying greatly from deal to deal. All this makes a strict classification of the reasons for mergers and acquisitions of companies impossible, but in our opinion it should include:

a) merger with/acquisition of companies with high ESG indicators - this motive is the most recent among all others in terms of its emergence, but in our opinion it is yet to become one of the most widespread ones. ESG indicators (environmental, social and governance indicators) reflect the approach and actions taken by the company in relation to environmental issues, social responsibility and compliance with corporate governance standards. For this reason, more and more companies, when undertaking corporate restructuring, consider how the "right" deals can help them improve their own ESG performance.

b) synergism - in the presence of synergism, the value of the whole is greater than the value of the sum of its individual components. Synergism is achieved by reducing costs and increasing revenues, but it does not arise by itself, it is realized only and only after it has already been identified, is further developed and controlled with the expertise necessary for the specific purpose.

c) market power – when, as a result of a merger or acquisition, an enterprise increases its size, it is able to achieve significant market power. This type of power can be exercised either through a monopoly or a monopsony.

d) acquisition of an important resource - sometimes the acquiring company wants to proceed with a merger or acquisition because the target company possesses a valuable resource of great value. This motive was widely advocated in the aviation industry, since the current regulatory requirements in individual countries required that, before they could start international flights, the specific airlines had an annual presence in the domestic market of N number of years.

e) economies of scale - economies of scale are observed in cases where the higher the production, the lower the marginal costs. Greater economies of scale can be obtained through lower operating and financial costs, leading to increased margins and hence to increased efficiency leading to value creation.

f) economies of scope – economies of scope are observed when a company expands its horizontal or vertical production line[8] . The savings themselves are realized thanks to the complementary strengths of the participating companies.

[8] Weidenfeld, Ad., R. Butler, All. Williams. Visitor Attractions and Events: Locations and linkages, Routledge, 2016, p. 35.

g) diversification – through a merger or acquisition transaction, the newly incorporated/acquiring company can diversify its product line or product range. The presumption of diversification is that a fall in the return of one of the divisions within the firm can be offset by a rise in the return of one of its remaining divisions.

h) overcoming barriers to market entry – products and/or markets may change so rapidly that mergers and acquisitions become the only possible way to successfully enter the market because the internal development process is too slow and/or unprofitable.

i) bargain purchase – after a financial analysis by the acquirer, it can be established that the target company is undervalued and is being offered at a discount. This makes the purchase too good to pass up.

j) research and development activities - quite often companies that have carried out a merger or acquisition transaction with precisely such a motive share that by integrating their research and development activities, they have been able to introduce new and better quality products more quickly and realize economies of scale.

k) fear of losing market share – sometimes management is afraid of losing market share to a competitor or an upcoming market player. In order to prevent this from happening, they resort to the two familiar forms of corporate restructuring.

l) value after fragmentation – sporadically, the underlying assets of certain companies are worth more than the price of the company as a whole. This provides an opportunity for companies that are observant in spotting similar type of corporations to purchase them and then quickly sell individual business units to different buyers at a price significantly in excess of what was originally paid for the whole.

m) savings in tax payments – if a profit-making enterprise acquires a loss-making enterprise, then the accumulated losses of the acquired enterprise can be carried forward to be offset against the profits of the acquiring enterprise.

n) rationalization of a management structure through consolidation – in the case of serial purchases of companies, and also in the case of unsuccessful separations and/or divisions, a situation can be reached in which the business activity is highly fragmented and the management structure unnecessarily complicated. In such situations, very often the most reasonable step that can be taken is to rationalize the latter through the consolidation of the individual enterprises.

o) managerial hubris – large mergers and acquisitions attract the attention of the media, and in parallel with this, the opportunities to increase personal reputation through flattering media interviews and appearances increase. In these cases, the so-called "managerial hubris" effect.

p) avoidance of bankruptcy proceedings – this motive is applicable both to companies facing the real danger of opening bankruptcy proceedings and to already opened bankruptcy proceedings. Specifically, in Bulgarian legislation, this legal possibility is objectified in Art. 261a, para. 2 of the CA.

r) speculation - in cases when the signals sent by the capital market to its participants speak eloquently that mergers and acquisitions activity is currently in a boom period and that active participants in this "game" receive generous premiums for this, quite a few managers embark on irrational corporate restructurings. Driven by their desire for big profits, but without having previously studied and analyzed the specific deals in detail, quite often after their realization, the managements of the companies remain extremely disappointed by the gap between the overly optimistic post-deal scenarios and reality.

In addition, the next two points of the first chapter - point 3 and point 4, introduce us to the legal - organizational framework, regulating the transformation of commercial companies, in particular through the forms of transformation - merger and amalgamation. In Bulgaria, the lack of experience and traditions in market-oriented legislation forces the legislative power to borrow from international experience when building the legal-organizational environment regulating mergers and acquisitions.

In the Bulgarian legal and legal literature, instead of the general term mergers and acquisitions, the concepts of mergers and amalgamations are analogously used. This is evident when directly comparing the already presented definitions of mergers and acquisitions with those of mergers and amalgamations, which are part of the present chapter of the dissertation work.

In Bulgaria in 1897, when the first Commercial Act (CA) was adopted, the regulation regulating conversions was extremely insufficient, because only amalgamation was recognized as a form of conversion. Only in 1991, as a form of corporate restructuring, was the merger also recognized and settled - OJ no. 48 of 18.06.1991. In Bulgarian legislation, the regulatory framework regulating mergers and amalgamations is included in Chapter 16 of the Commercial Act.

Mergers and amalgamations as forms of corporate restructuring represent multi-step procedures that must be implemented, observing the relevant imperative norms. According to Art. 262a and Art. 262 of the CA, upon merger, all the assets of two or more commercial companies (converting companies) are transferred to one newly established company, which becomes their legal successor. Converting companies are terminated without liquidation. In the event of an amalgamation, all the assets of one or more commercial companies (converting companies) are transferred to an existing company (acquiring company), which becomes their legal successor. Converting companies are terminated without liquidation. Both in mergers and in amalgamations, succession, respectively in the newly established company in the case of merger and the receiving company, respectively in amalgamations, is universal, which means that all the rights, obligations and modalities of one legal entity or fractional parts thereof pass to another entity. It is expressly regulated[9] , that all types of commercial companies can be subject to conversion.

The actual composition and elements of the conversion procedure are detailed in **point 1.3.** from work. The factual composition represents the totality of all mandatory elements that must be carried out in a precisely defined sequence in order to carry out the transformation into legal world. The significant omission or absence of a mandatory element of the factual composition leads to the invalidity of the conversion, which is ascertainable by way of claim. The actual composition of mergers and amalgamations of commercial companies includes the following nine interrelated and interdependent elements:

1) **<u>Conclusion of a contract for conversion, respectively preparation of a draft contract for conversion</u>** - the draft contract for conversion, respectively the contract for conversion, sets the beginning of the conversion. Within the meaning of CA before a decision on conversion is made, a conversion contract is concluded, with the parties to the contract in the case of a merger being the converting companies, and in the case of an amalgamation, the converting company and the receiving company. It is also allowed the possibility to prepare a draft of a conversion contract instead of a conversion contract, with the conclusion of the contract itself being postponed after the conversion decision has been made. All applicable conversion contract rules apply to the project.

Competent to conclude the contract, respectively the draft of the conversion contract, are the management body, respectively the partners with the right to manage. The conversion

[9] See Art. 261, para. 1 of the CA.

agreement, as well as the draft of the conversion agreement, are formal, concluded in writing with notarization of the signatures.

Undoubtedly, of all the elements of the conversion agreement, the most important is the exchange ratio of shares and units. Therefore, it is necessary to very accurately determine and accordingly agree on the specific numerical ratio according to which the exchange of shares and shares in the transforming companies will be carried out against shares or shares in the receiving company or the newly established one. The specific methods for determining the share price are:

- the method of discounted cash flows;

- the net asset value method;

- the method using the market multiples of peer companies (comparable companies).

It is expressly regulated[10], that the conversion agreement has its legal effect from the moment of its conclusion in relation to each of the converting and receiving companies. The purpose of the contract itself is for the partners and shareholders to be able to familiarize themselves with the change in their membership relationship, which will be realized from the moment they enter into membership relationships with the successor company, and to form their personal opinion as to how far the provisions in the contract protect their rights and interests.

2) **<u>Preparation of a written report on the conversion by the management body of the company</u>** - authorized to prepare a written report on the conversion is the management body of each of the companies participating in the conversion. The commercial law states that the written form is a mandatory condition for the validity of the report. The central element of the report should be the detailed legal and economic justification of the conversion agreement, respectively the conversion plan, with the emphasis being placed on the agreed or accepted exchange ratio of the shares and units. Therefore, the replacement ratio is a mandatory requisite that guarantees the authenticity of the report itself. The conversion report is primarily intended for the partners and shareholders of the converting and receiving companies, therefore it is prepared precisely in their interest.

3) **<u>Announcement of the contract or conversion project, together with the report from the governing body in the commercial register</u>** - according to the requirements of the Commercial

[10] See Art. 262z of the CA.

Law[11] the contract or conversion plan, together with the management body's report, shall be submitted to the commercial register, and the announcement shall be made simultaneously in the affairs of each converting and receiving company.

4) **<u>Inspection of the transformation and report of a designated auditor</u>** - the regulatory framework for the verification of the transformation in mergers and amalgamations of commercial companies is contained in Art. 262l and Art. 262m of the Commercial Act. According to these two sections of the Law, each of the converting and receiving companies is obliged to carry out an inspection of the conversion contract by a designated auditor.

Only a registered auditor can be appointed as an examiner. An auditor cannot be a person who in the last two years has been an auditor of the company that appoints him or who has prepared an assessment of a non-monetary contribution. In addition, the appointed auditor cannot be elected as an auditor of any of the companies involved in the conversion for two years after the date of the conversion. The Commercial Act[12] expressly states that violation of the rules for the appointment of an auditor vitiates the legality of the conversion and in itself constitutes grounds for filing a claim challenging the conversion.

5) **<u>General report objectifying the results of the capital audit</u>** - according to the Commercial Act, the auditors of all companies prepare a general report in which they present the results of the capital audit, in cases where a capital trading company is established upon conversion or an increase in the capital of the host company. The value indicators of the amount of the capital of the successor company and the net value of the property transferred to it are compared by the auditor during the inspection. The amount of capital is legally formed only if it does not exceed the net value of the property transferred to it.

6) **<u>Provision of the required information specified in the CA</u>**[13] – in the Commercial Act successively[14] the requirement for mandatory provision of preliminary information before the decision on conversion by the general meetings of the converting and receiving companies participating in the procedure has been introduced. Art. 262n, para. 1 of the Commercial Act regulates that, before a decision on conversion is made, the following shall be made available to partners and shareholders:

[11] See Art. 262k, paragraph 1 of the CA.
[12] See Art. 263o, para. 1, item 2 of the CA.
[13] See Art. 262k and Art. 262n of the CA.
[14] Ibid.

1. the contract or conversion plan;

2. the report of the governing body;

3. the examiner's report;

4. the annual financial statements and activity reports of all converting and receiving companies for the last three financial years, if any;

5. the balance sheet as of the last day of the month before the date of the contract or the transformation plan, unless the last annual financial statement refers to a financial year that ended less than 6 months before that date or the company presents financial statements every 6 months or during shorter periods of time in accordance with the Law on the Public Offering of Securities, or if all partners or shareholders in the converting and receiving companies have expressed their written consent that the balance sheet shall not be provided;

6. the drafts of a new memorandum of association or articles of association of each of the newly established companies, respectively for amendments and additions to the articles of association or memorandum of association of each of the transforming and receiving companies.

7) **Making a decision on conversion by the general meetings of the converting and receiving companies participating in the procedure** - the commercial act regulates legal majorities when deciding on a merger or amalgamation depending on the type of commercial company.

In the process of adopting the conversion decision, a special place has been set aside for the protection of those partners and shareholders in a limited liability company who, as a result of the corporate conversion, become unlimitedly liable. Their consent is intended as a positive vote in favor of the restructuring.

The option holders, bondholders and warrantors after the conversion must be granted equivalent rights in the receiving or newly incorporated companies. This rule shall not apply if the meeting of the holders of these securities, if such is provided for by law, has agreed to the change of the rights under them, or each holder has separately given consent to change his right, or may present the securities held by him for redemption.

8) **Availability of a permit for conversion from a special state body in the cases provided for by law** - the special state bodies competent to issue a permit for conversion in other cases provided for by law are: the Commission for the Protection of Competition, the Financial

Supervision Commission (FSC), the Bulgarian National Bank (BNB) and the Commission for Energy and Water Regulation (CEWR).

In connection with the potential anti-competitive effect it may have on the market, the concentration of economic activity is subject to control precisely by the CPC. A given transaction or action is considered a concentration of economic activity in cases where, as a result of their implementation, permanent structural changes occur in the enterprises operating in the relevant market.

The Financial Supervision Commission, for its part, issues a permit to approve an infusion or merger only after a permit to approve the conversion has been issued by the CPC. Through its decisions, the FSC aims to protect consumers and shareholders in the respective companies.

The Law on Credit Institutions (LCI) imperatively regulates that the transformation of a bank through a merger is allowed only with another bank. A permit is issued only if the newly established company receives a bank license. The conversion of a bank through an amalgamation is also considered in the LCI. This type of conversion is only allowed if the host company is a bank. Another bank, payment institution, investment intermediary or financial institution can flow into a bank. Without written permission from the BNB, the bank cannot be converted. An amalgamation permit is issued only and only in cases where the license of the receiving bank allows it to carry out the activities of the amalgamating company.

The Commission for Energy and Water Regulation is the regulatory body that approves mergers and amalgamations of energy companies that hold licenses. CEWR gives its consent to any conversion of a licensee through a merger or amalgamation, if the entity that will subsequently carry out the licensed activity, after the conversion, meets the conditions for obtaining a license for the specific activity.

9) Entry of the conversion in the commercial register - the start of the proceedings for the registration of a merger or amalgamation of commercial companies is made with a written application from the management body of the newly established or receiving company to the Registry Agency at the headquarters of the newly established company, respectively of the company being converted.

An 8-month period is provided for the entry of a merger or amalgamation in the commercial register, which begins to run from the date on which the exchange ratio is determined with the conversion agreement.

The transformation has its legal effect from the moment of registration of the merger or amalgamation on the lots of the participants in the transaction. In the commercial register for the batches of the merging or amalgamating companies, their termination is entered, noting the individualizing data of the newly established or receiving company.

The possibility of disputing the conversion of a commercial company, the declaration of invalidity of the (newly) established company is the subject of review in **point 1.4** of the dissertation. The right to contest the transformation during the reorganization of the commercial company by means of its merger, amalgamation, division, separation is regulated in Art. 263o of the Commercial Act. The legislator has identified three groups of violations that can be grounds for contesting the conversion:

1. lack of contract, draft contract, conversion plan or they are invalid;

2. non-compliance with the requirements of Art. 262 of the CA;

3. the conversion decision contradicts mandatory provisions of the law or the founding agreement, respectively the company's articles of association.

Also, the Commercial Act regulates the right to challenge the conversion when changing the legal - organizational form of a commercial company. Grounds for contesting the conversion are the following violations:

1. lack of a conversion plan or the plan is invalid;

2. non-compliance with the requirements of Art. 264 and Art. 262 of the CA;

3. the conversion decision contradicts mandatory provisions of the law or the founding agreement, respectively the company's articles of association.

The Commercial Act also provides for the possibility of contesting the conversion of companies, at least one of which is headquartered in a member state of the European Union or in a state party to the Agreement on the European Economic Area. The same refers to the general provision laid down in the CA.

The legislator has created a special regulation regulating the invalidity of both established companies and newly established ones[15].

In **the second chapter** of the dissertation, the issues related to **the recognition, initial and subsequent evaluation and disclosure of business combinations** based on the International Accounting Standards (IAS) / International Financial Reporting Standards (IFRS) are discussed in detail. Special attention is paid to the following issues:

1. The correct recognition, initial and subsequent valuation of the assets and liabilities of the combining enterprises and disclosure of business combinations;

2. The appropriate application of the different approaches of the fair value model in determining the value for each of the acquired identifiable tangible and intangible assets and assumed liabilities at the date of the combination and their relevant disclosure;

3. Accounting for the resulting goodwill or profit from the bargain purchase (negative goodwill);

4. The ways of accounting for the non-controlling interest.

The individual six components of reputation are also examined. The central place in the work structure is occupied by **the second part of the second chapter**, containing **the critical analysis of the presentation of business combinations in the company's financial statements**, according to IFRS 3. The analysis itself was carried out in relation to:

a) the concept of fair value;

b) the subsequent accounting of goodwill in connection with the non-charging of amortization expenses.

Point 2.1. from the dissertation presents in detail the accounting recognition, initial and subsequent evaluation and disclosure of business combinations in the company's financial statements, according to IFRS 3 Business Combinations.

The accounting standard issued by the International Accounting Standards Board that governs the reporting of business combinations is International Financial Reporting Standard (IFRS) 3 Business Combinations. The definition of a business combination, according to Appendix A of the Standard, is an operation or other event in which the acquirer obtains control

[15] See Art. 70, para. 1 of the CA and Art. 263p ibid

over one or more business activities. Control, in turn, is addressed in IFRS 10 Consolidated Financial Statements. The investor controls the investee when there is a variable return from its interest in the investee and has the ability to influence that return through its power in the investee.

The only applicable method for accounting for business combinations, according to IFRS 3 Business Combinations[16], is the method of acquisition. Its implementation involves the following four key steps:

a) identifying the acquirer - during this step, the acquiring enterprise acquires control over another enterprise, i.e. acquiree. It follows from the definition that the key criterion in identifying an acquirer is that of control.

In the majority of cases, it is easy to identify the acquirer, but there are also situations where the identification requires additional judgment. IFRS 3 Business Combinations introduces additional factors to consider when determining which of the combining entities is the acquirer.

We find it accurate and reasoned the mandatory requirement of the Standard in any business combination that one of the combining entities be identified as the acquirer. The need to identify the acquirer arises from the inevitability of step 3 of the application of the acquisition method - recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree.

b) determining the acquisition date - the date of acquisition is recognized as the date on which the acquirer obtains control over the acquiree. We will summarize the additional clarifications regarding the determination of the acquisition date as follows:[17]

- the acquisition date is the date on which the acquirer effectively obtains control over the acquiree.

[16] Additional information can be found in item 2.2 of the research conducted
[17] See paragraphs 8 – 9 of IFRS 3 Business Combinations.

- the date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and liabilities of the acquiree – closing date.

c) **<u>recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree</u>** - at the date of acquisition, the acquirer recognizes, separately from goodwill, the identifiable acquired assets, assumed liabilities and non-controlling interest in the acquired enterprise.

The acquiring company values the identifiable assets acquired and liabilities assumed at their fair values at the date of acquisition. The definition of fair value[18] can be found in both Appendix A of IFRS 3 Business Combinations and Appendix A of IFRS 13 Fair Value Measurement. According to them, fair value is the price received for the sale of an asset or paid for the transfer of a liability in an ordinary transaction between market participants at the valuation date. The important conclusion follows from the term thus defined that since the transaction between market participants at the valuation date is customary, the fair value excludes any mandatory and/or forced transactions. Fair value is determined based on market conditions and criteria, not on the specifics of the individual entity. For some assets and liabilities, market information is available or market transactions are observed, while for others such data is not available. However, the objective of fair value measurement in both cases is the same — to calculate the price for which an asset would be sold or a liability transferred in an ordinary transaction between market participants at the valuation date under current market conditions (i.e. the sales price on the valuation date from the perspective of a market participant who owns the asset or owes the liability, respectively).

Fair value measurement is performed for a specific asset or liability. Therefore, when determining fair value, an entity considers the characteristics of the asset or liability that market participants would also consider in determining the price of the given asset or liability at the measurement date.

According to IFRS 13 Fair Value Measurement, when an entity determines fair value, it is required to assume that a hypothetical transaction to sell an asset or transfer a liability takes place[19]:

[18] **We share our opinion on the concept of fair value in item 2.2.1 of the dissertation**
[19] See paragraph 16 of IFRS 13 Fair Value Measurement.

(a) in the principal market for that asset or liability; or

b) in the absence of a principal market — on the most advantageous market for this asset or liability.

The definitions of principal market, most advantageous market and market participants are contained in Appendix A to IFRS 13 Fair Value Measurement. A principal market is the market with the largest volume and level of activity for the given asset or liability. The principal market is actually the most liquid market for that asset or liability. Most advantageous market[20] is the market in which, after accounting for transaction costs and transportation costs, the amount received for the sale of the asset is the maximum or the amount paid for the transfer of the liability is the minimum.

In order to improve consistency and comparability in fair value measurement and related disclosures, this IFRS defines a fair value hierarchy that categorizes into three levels the inputs used in fair value measurement methods. The fair value hierarchy provides the highest rank to the announced (unadjusted) prices in active markets for identical assets or liabilities (level I inputs) and the lowest to the unobservable inputs (level III inputs).[21]

Graphically, the hierarchy of fair values can be represented as follows. (cf. Figure 2)

[20] The position of the author in relation to the most profitable market is placed in item 2.2.1. from dissertation.

[21] See Paragraph 72 of IFRS 13 Fair Value Measurement.

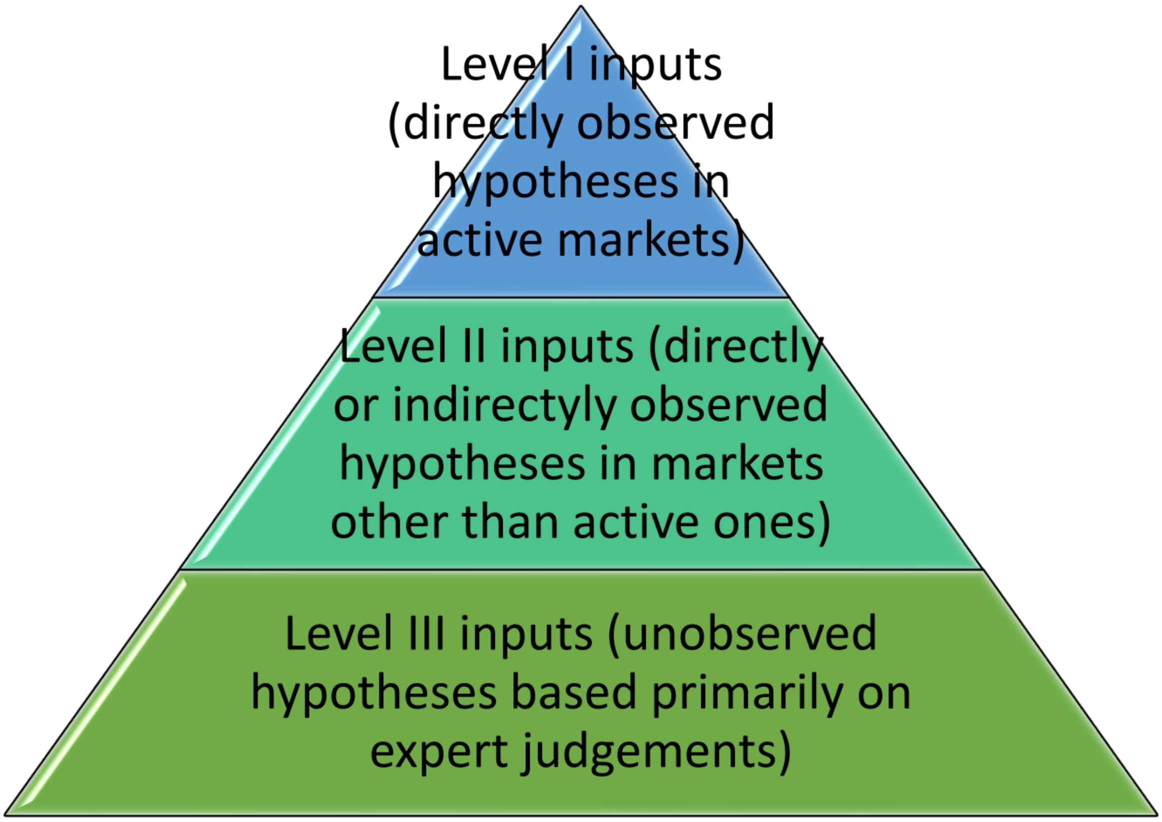

Figure 2. Fair value hierarchy

For each business combination, the acquiring company assesses at the acquisition date the components of the non-controlling interest in the acquiree that are, by their nature, existing ownership interests entitling their holders to a proportionate share of the net assets of the entity in the event that the latter is liquidated, using for this purpose:

a) the fair value; or

b) the proportional share of the existing instruments of ownership in the recognized values of the identifiable net assets of the acquired company.

All other components of non-controlling interests are measured at their fair values recorded at the date of acquisition, unless IFRS requires a different measurement basis to be used.

The definition of non-controlling interest can be found in Appendix A to IFRS 3 Business Combinations, and according to it, it represents the equity capital of a subsidiary that does not relate directly or indirectly to the parent company. A quoted price is not always available for equity shares in an active market. In such situations, the acquirer estimates the fair value of the non-controlling interest using other valuation methods.

d) **recognising and measuring goodwill or a gain from a bargain purchase** - goodwill recognized in a business combination is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Future economic benefits may arise from synergies between identifiable assets acquired or from assets that individually do not qualify for recognition in the financial statements[22]. Under IFRS 3 Business Combinations, the acquirer recognizes goodwill at the acquisition date measured as the excess of (a) over (b) below, where:

a) the sum of:

1) the consideration transferred, assessed in accordance with this IFRS, which generally requires fair value at the acquisition date;

2) the amount of any non-controlling interest in the acquiree to be valued in accordance with this IFRS; and

3) in a business combination achieved in stages, the fair value at the date of acquisition of the acquirer's previously held equity interest in the acquired enterprise;

b) the net amount at the acquisition date of the amounts of identifiable assets acquired and liabilities assumed, determined in accordance with this IFRS.

It is evident from the definition of reputation and the adopted methodology for its assessment that it essentially represents a resulting (residual) quantity. However, structurally speaking, it is made up of the following six components[23]:

1) The excess of fair values over the book values of the net assets of the acquired entity – when the net assets are valued at their fair values, such an excess would not exist.

2) The fair values of other net assets that have not been recognized from the acquiree – a serious problem here is the inclusion in the financial statements of assets that are either not reliably measurable or do not meet the recognition criteria.

[22] See Paragraph 11 of IAS 38 Intangible assets.
[23] Johnson, L. T., Petrone, K. R. Is goodwill an asset?, Accounting Horizons, Volume 12, № 3, 1998, p. 295.

3) The fair value of the "going concern" as part of the existing business of the acquiree - this refers to the ability of the acquiree to earn a higher return through the aggregate value of the net assets than would be expected from those same net assets operating separately.

4) The fair value of synergies from combining the net assets and businesses of the acquirer and acquirees – this value is unique to each individual business combination and depends directly on the degree of practical realizability of the expected synergies.

5) Overstatement of the amount paid by the acquiring company – this component refers to all types of errors related to the measurement of fair values in the business combination.

6) Overpayment or underpayment by the acquirer - this is possible in auction conditions and in "fire sales".

Regarding the individual components, the International Accounting Standards Board, together with the Financial Accounting Standards Board, provide the following comments[24] :

- ✓ the first two components – both of which relate to the acquiree, are conceptually not part of goodwill. The first component is not itself an asset, instead it reflects gains that the acquiree has not recognized in its net assets. The second component is conceptually also not part of goodwill because it mainly reflects intangible assets that can be recognized as individual assets.
- ✓ the fifth and sixth components, both of which relate to the acquiring company, are also not part of goodwill. The fifth component is not an asset or even part of one, but rather a measurement error. The same is true for the sixth component - it is not an asset, as it represents a loss (in case of overpayment) or profit (in case of underpayment) for the acquired company.
- ✓ however, the third and fourth components are part of reputation. The third component is associated with the acquiree and reflects the excess value of its net assets. It represents pre-existing goodwill that is either internally generated by the acquiree or acquired by it in previous business combinations. The fourth component refers to both the acquiree and the acquirer and reflects the additional value that is created by the combination – the synergistic effect that is expected from combining these businesses. The boards describe the third and fourth components collectively as "intrinsic goodwill."

[24] See. Paragraphs BC 314 – 317 from Basis for Conclusions on IFRS 3 Business Combinations, as revised in 2008.

Although relatively rare, unusual cases also occur in business combinations where the acquisition date net value of the amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the acquisition date fair value of the consideration transferred, plus the sum of any non-controlling equity in acquisitions, plus the acquisition date fair value of the acquirer's previously held equity interest in the acquiree in a business combination achieved in stages. This difference is called a bargain purchase[25] – such a purchase may occur, for example, in a business combination where there is a forced sale, i.e. the seller is acting under duress. Before recognizing a bargain purchase, however, the acquirer evaluates whether it has correctly identified all assets acquired and all liabilities assumed and recognizes any additional assets or liabilities identified in that review. The acquirer then reviews the procedures used to measure the amounts that this IFRS requires to be recognized at the acquisition date.

The purpose of this review is to confirm that the valuations properly reflect consideration of all information available at the acquisition date. If, after its implementation, this result is reconfirmed, then the acquirer recognizes a bargain purchase.

The subsequent evaluation and disclosure of business combinations in the financial statements of enterprises is also presented in **point 2.1.2** of the dissertation. The acquiring company should subsequently measure and account for the assets acquired, liabilities assumed or incurred and equity instruments issued in a business combination in accordance with other applicable IFRS for these items depending on their nature.

The subsequent accounting of the already recognized goodwill arising as a result of a business combination is regulated in IAS 36 Impairment of Assets, as it is not amortized, but instead subject only to annual impairment testing (paragraph B63 of IFRS 3 Business Combinations). The amount by which the carrying amount of an asset or cash-generating unit exceeds its recoverable amount is called an impairment loss. The recoverable amount is defined as the higher of the fair value less the disposal costs of an asset and its value in use. Value in use, in turn, is the present value of the future cash flows expected to be received from the given asset. At the end of each reporting period, the entity must carefully assess whether there are indications that the value of an asset is impaired. In case of presence of such indications, the company calculates the recoverable amount of the asset.

[25] See paragraphs 34 – 36 of IFRS 3 Business Combinations

A reported impairment loss recognized in respect of goodwill is not recoverable in a subsequent period. Any increase in the recoverable amount of goodwill in periods after the recognition of the loss would in all likelihood result in an increase in internally generated goodwill rather than a reversal of the impairment loss recognized for the acquired goodwill. Recognition of internally generated goodwill is prohibited under IAS 38 Intangible Assets.

The acquiring company is required to disclose information that enables users of the financial statements to assess both the nature and the financial effect of business combinations carried out either during the current accounting period or after its end, but before the financial statements are approved for publication.

The acquirer discloses for each business combination carried out during the reporting period the required information according to paragraphs B64 - B67 of IFRS 3 Business Combinations.

As already mentioned, the central place in the work structure is occupied by **point 2.2.**, containing the critical analysis of the presentation of business combinations in the company's financial statements, according to IFRS 3. The analysis itself was carried out in relation to:

a) the concept of fair value - the use of fair value in financial reporting is not a new phenomenon. It derives from the efficient market hypothesis[26],[27],[28],[29], which has been proven invalid[30] , and is essentially a more advanced, more modern and more scientific-sounding version of Adam Smith's invisible hand, only applied to the financial market[31],[32],[33],[34].

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[26] Duska, R., Br. Duska, J. Ragatz. Accounting Ethics, Second edition, John Wiley & Sons, 2011, p. 190.
[27] Laskin, A. Investor Relations and Financial Communication: Creating Value Through Trust and Understanding, John Wiley & Sons, 2021, p. 4.
[28]Elson, A. Governing Global Finance: The Evolution and Reform of the International Financial Architecture, Palgrave Macmillan, 2011, p. 202.
[29] Kashyap, Am. & Anj. Tomar. Financial Market Regulations and Legal Challenges in South Asia, IGI Global, 2016, p. 129.
[30] Catty, J. Wiley Guide to Fair Value Under IFRS: International Financial Reporting Standards, John Wiley & Sons, 2010, p. 151.
[31] Magnuson, J. Financing the Apocalypse: Drivers for Economic and Political Instability, Palgrave Macmillan, 2018, p. 127.
[32] Wilmott, P. and D. Orrell. The money formula dodgy finance, pseudo science, and how mathematicians took over the markets, John Wiley & Sons, 2017, p. 24.
[33] Xie, X. Full view integrated technical analysis: a systematic approach to active stock market investing, John Wiley & Sons, 2011, p. 209.
[34] Mallios, W. Forecasting in Financial and Sports Gambling Markets: Adaptive Drift Modeling, John Wiley & Sons, 2011, p. 29.

As already mentioned, fair value is defined as the price received for the sale of an asset or paid for the transfer of a liability in an ordinary transaction between market participants at the valuation date. Paragraphs B37 – B42 of IFRS 13 Fair Value Measurement provide guidance on fair value measurement that we believe is generally appropriate, but in cases where the volume or activity of an asset or liability has decreased significantly, **we believe that the lack of a certain minimum volume of transactions, which at the time of writing the dissertation is not specified in the Standard, calls into question the legitimacy of the price so determined.**

With respect to level three inputs in the fair value hierarchy, we would like to address to the IASB the question - Why, since the market cannot provide a fair value for an asset, should it be determined using non-market factors, taking into account the text in paragraph 89 of IFRS 13 Fair Value Measurement that the entity is not required to make excessive efforts to obtain information about market participants' assumptions? Enterprises also often resort to using the most advantageous market for a given asset or liability instead of the main one, a prerequisite for which is the explicit clarification in paragraph 17 of IFRS 13 that the enterprise is not obliged to undertake an exhaustive search of all possible markets in order to establish the principal market. Market selection by reference to the most advantageous one introduces a company-specific fair price, as different market participants trade in different markets.

The concept of fair value proves impotent in the face of the empirical challenge of determining the fair value of market-unique assets that are still in the process of being created—a task that historical cost accounting handles with ease.

But why, despite all its flaws and despite Roosevelt's 1930 ban on using fair value in economics because he believed it had contributed to the Great Recession a year earlier[35] , then to date fair value is so advocated in accounting standards? The increased use of fair values between 1990 and 2000 corresponds to the increased proportion of FASB members employed in the financial services sector[36]. The share of members employed in financial services rose from zero in the early 1990s to almost 30 percent in 2006. As we know, investment bankers and asset managers prepare, work with and refer to fair values on a daily basis, and establishing

[35] Allison, J. The Financial Crisis and the Free Market Cure: Why Pure Capitalism is the World Economy's Only Hope, McGraw Hill, 2012, p. 103.
[36] Ramanna, K. Political Standards: Corporate Interest, Ideology, and Leadership in the Shaping of Accounting Rules for the Market Economy, The University of Chicago Press, 2015, p. 101.

the latter permanently in the financial statements would significantly increase the number of their portfolio of clients.

In connection with the elimination of the listed shortcomings in the regulation of fair value, the International Accounting Standards Board is definitely facing a series of challenges. Taking into account the critical analysis carried out, we believe that the starting point of the process of eliminating the existing vices, so that the fair value can bear the name fair, is in the absence of a primary **market for a given asset or liability and in the impossibility of determining the fair value except by formulating unobservable hypotheses (hypotheses of level III), then instead of fair value, the accounting valuation should be carried out at acquisition price (**the information on fair value valuation is insufficiently up-to-date or there is a wide range of possible fair value valuations) **, which in specific cases would help achieve a far more reliable assessment. It is also necessary to introduce a certain minimum required amount of transactions below which the volume or activity for the asset or liability is considered to have significantly decreased.**

b) the subsequent accounting of the commercial goodwill in connection with the non-charging of amortization expenses - the commercial goodwill includes elements such as: amazing management, strategic location, good relations with customers, qualified and loyal employees, good image, high-quality products, fair price policy and harmonious relations with trade unions[37]. A turning point regarding the subsequent accounting of earned goodwill is the speech of US Senator Phil Gramm, who said during a public hearing, "Goodwill may grow, goodwill may decline, but I see no immutable law of economics that says that it should decrease. I would suggest that in most well-run companies in periods of economic expansion, the value of the franchise, the value of the name, the value of the market position, actually increases, not decreases[38]."

In our opinion, the notion of **keeping the value of the goodwill acquired as a result of a business combination unchanged over time is extremely wrong**. Inevitably, its value decreases over time. Unlike other assets that can be sold separately, goodwill cannot be sold

[37] Adapted from Kimmel, P., J. Weygandt and D. Kieso. Financial accounting: Tools for business decision making, John Wiley & Sons, 2011, p. 471.
[38] United States Congress Senate Committee on Banking, Housing, and Urban Affairs. Pooling accounting: hearing before the Committee on Banking, Housing, and Urban Affairs, United States Senate, One Hundred Sixth Congress, Second session on the replacement of pooling accounting with a method of accounting for business combinations more reflective of actual company value, March 2, 2000, p. 47.

separately because it is an integral part of the business[39]. Goodwill acquired as a result of a business combination does not generate cash flows independently of other assets[40]. It indirectly derives from the costs incurred in connection with the enterprise's activity, including costs of advertising, staff training, research and development, etc. Its value is maintained through a number of additional costs, which only lead to the generation of internally generated goodwill, which, as we have already specified, is not recognized as an asset. By the same logic, the charging of depreciation costs on fixed tangible assets should also be suspended, since through regular maintenance their value can be preserved over time. The non-charging of amortization expenses in relation to acquired goodwill actually results in the recognition of internally generated goodwill.

The goodwill impairment test lacks objectivity because the entity is free to only determine key variables involved in determining the impairment that has occurred, such as the growth rate and the discount rate. In this way, economists with good mathematical knowledge could very easily determine what the exact amount of the discount rate and the growth rate should be depending on whether or not they wanted the goodwill to be impaired. In their paper Mergers and Acquisitions and Executive Compensation, Virginia Bodolica and Martin Spraggon show that, in general, when an impairment loss is recognized, CEO compensation is reduced[41]. As the most important reason for this, scientists Wei Xu, Asokan Anandarajan, Anthony Curatola define the negative perception of the recognized costs of impairment of goodwill by investors[42]. Categorical evidence of the vices in the conduct of the goodwill impairment test and the resulting results are the words of Hans Hoogervorst, Chairman of the International Accounting Standards Board, based on a global study conducted in a number of jurisdictions around the world applying IAS/IFRS as basis for preparing and presenting financial statements. In practice, businesses are hesitant to impair goodwill to avoid being perceived as having made a poor investment decision. On the other hand, newly appointed CEOs quite often have a vested

[39] Weygandt, J. and group of authors on the project. Accounting Principles, 8th Canadian edition, Volume 2, John Wiley & Sons, 2019, p. 48.
[40] Henderson, Sc. and group of authors on the project. Issues in Financial Accounting, Pearson, 2017, p. 244.
[41] Bodolica, V., M. Spraggon. Mergers and Acquisitions and Executive Compensation, Routledge, 2015, p. 117 – 171.
[42] Xu, W., A. Anandarajan, A. Curatola. The value relevance of goodwill impairment. Research in Accounting Regulation, Volume, 23, 2011, p. 145 – 148.

interest in recognizing significant impairment losses on acquisitions already made by their predecessors[43].

Implicit confirmation of the thesis presented by us about the gradual replacement over time of acquired goodwill by internally created goodwill and the need for amortization of goodwill comes from the International Accounting Standards Board itself. Strongly standing by Senator Gramm's previously quoted words that there is no law in economics that goodwill declines over time, they repealed the amortization requirement and replaced it with an impairment test. This means that even if an impairment is recognized at some point, in a subsequent period of economic expansion, the goodwill can easily recover its value. However, recovery in a subsequent period of an impairment loss recognized in respect of acquired goodwill is strictly prohibited, as any increase in the recoverable amount of goodwill in periods after the loss is recognized is likely to result in an increase in internally generated goodwill rather than recovery of the impairment loss recognized for the acquired goodwill[44] .

All the above arguments irrefutably prove that the non-charging of amortization is **incorrect**. **We are of the opinion that the Standard urgently needs to be revised, introducing a mandatory charging of goodwill amortization expenses on a systematic basis over its useful life.** For the majority of business combinations, the most appropriate and appropriate method of amortization would be the straight-line method, because it would reflect the gradual consumption of goodwill. If an entity can demonstrate that another method more appropriately reflects the way in which future economic benefits are expected to be consumed under the particular circumstances, it may apply one of the other amortization methods other than the straight-line method. Here, however, quite reasonably comes the question, what should be the useful life of the commercial goodwill? In our opinion, it is directly dependent on the required time period for full integration of the business combinations. After a comprehensive and thorough review of the world literature on the issue, we found that this period is 5 years[45],[46]. The 5-year term thus determined coincides with the established period of amortization of acquired

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[43] KPMG. Who cares about goodwill impairment? A collection of stakeholder views, KPMG International Cooperative, 2014, p. 5.
[44] Paragraphs 124 and 125 of IAS 36 Impairment of Assets.
[45] Cartwright, S. and C. Cooper. Mergers and Acquisitions: The Human Factor, Butterworth-Heinemann, 1992, p. 32.
[46] Galpin, T. and M. Herndon. The Complete Guide to Mergers and Acquisitions: Process Tools to Support M&A Integration at Every Level, Jossey-Bass, Second edition, 2007, p. 63.

goodwill in the following countries: Belgium, Denmark, Finland, Italy, Poland, Portugal, Sweden[47], Japan[48] and South Korea[49].

<u>c) the inclusion of integrated reporting measures in IFRS 3 disclosures in their role as non-financial measures of the success of business combinations</u> - integrated reporting was designed to address the many criticisms that are commonly leveled at corporate reporting, and in particular how they disclose all the necessary information that its external users need to be able to make rational economic decisions. The end result of integrated reporting is integrated reports that provide a holistic view of the value being created by corporations in the short, medium and long term. The integrated report is based on the financial one, while at the same time providing additional information. Through integrated reporting, companies provide stakeholders with a more comprehensive, deeper and clearer picture of their operations. An integrated report should tell the story of the company.

Integrated reporting as a modern expression of the ongoing globalization in the field of accounting opens opportunities to achieve reliable and comparable accounting information. Every company uses the resources available to it to carry out its activity, which in the International Integrated Reporting Framework are represented as capital, and the creation of value takes place through investments in the following six types of capital - financial, production, intellectual, human, social and natural. Individual types of capital are increased, decreased or transformed through the company's activities.

We firmly believe that integrated reporting is the path to transparent and accountable financial reporting. Established in November 2021 The International Sustainability Standards Board, complementing the work of the International Accounting Standards Board, in March 2022 published two drafts for discussion - IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information[50] , and IFRS S2 Climate-related Disclosures[51]. The two Councils are working together to reach consensus on how best to incorporate and build upon the International Framework for Integrated Accountability in the joint development of

[47] Weetman, P., P. Gordon and Cl. Roberts. International Financial Reporting: A Comparative Approach, Pearson, Third edition, 2005, p. 431.
[48] Petitt, B. and K. Ferris. Valuation for Mergers and Acquisitions, Pearson, Second edition, 2013, p. 224.
[49] Krishnamurti, Ch. and R. Vishwanath. Mergers, Acquisitions and Corporate Restructuring, Sage publications, 2008, p. 168.
[50] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information, Exposure Draft, ISSB, 31st March 2022.
[51] IFRS S2 Climate – related Disclosures, Exposure Draft, ISSB, 31st March 2022.

standards. Taking into account all of the above, we believe that in the foreseeable future integrated reporting will gradually become mandatory outside of Johannesburg. In addition to the already mentioned universal legal succession in business combinations of all rights, obligations and modalities of one legal entity or fractional parts thereof passing to another entity, business associations influence and have an impact outside the framework of the companies involved in the transformation - customers, suppliers, investors, regulatory authorities, competitors, etc. Therefore, the inclusion of integrated reporting indicators in IFRS 3 disclosures in their role as non-financial measures of success of business combinations will increase the awareness of users of general purpose financial statements and the effects of business combinations. This, in turn, can be realized through the proposed set of 35 common indicators for systematic and consistent reporting of long-term value creation (31 of the indicators are adapted from the World Economic Forum's Framework Towards Common Metrics and Consistent Reporting of Sustainable Value Creation[52] , containing a total of 55 indicators, to which we also added the indicators - customer satisfaction measurement, cyber security, business model, external assessment of the credibility of the disclosed information, which is why we will name the proposed set of indicators **A modified framework for systematic and consistent reporting of long-term value creation)** . The reason why we prefer the Framework presented by the World Economic Forum is that there is consistency between their Framework and other existing frameworks and standards and the derived indicators are applicable to all industries and business models[53]. In our proposed framework, we have further refined the universality of the proposed indicators, excluding those that are strictly specific to certain industries, such as single-use plastic consumables used, water pollution, etc. The derived indicators are structured in the following 3 pillars - ESG metrics:

- ecological (E);
- social (S);
- governance (G).

The parameters reflect the company's attitude towards the environment, its social responsibility and the level of compliance with corporate governance standards. ESG factors are

[52] The World Economic Forum. Toward common metrics and consistent reporting of sustainable value creation, White paper, September 2020.
[53] Ibid.

often referred to as non-financial, and the ability of companies to manage them leads to measurable financial consequences for their future development.

Pillar	Subtopics, Key Indicators, and Disclosures
Ecological	Emissions of greenhouse gases For all relevant greenhouse gases (e.g. carbon dioxide, methane, nitrous oxide, fluorine-containing gases, etc.), report in metric tons the equivalent tons of CO_2 falling within scopes 1 and 2 of the GHG Protocol. Estimate and disclose upstream and downstream emissions (Scope 3 of the Greenhouse Gas Protocol) where appropriate.
	Implementation of published recommendations from the Working Group on Climate Financial Disclosure Fully implement the recommendations of the Task Force on Climate Financial Disclosure. If necessary, disclose a time period of at most three years for full implementation. Disclose whether you have set or are committed to setting greenhouse gas emission targets that are consistent with the Paris Agreement goals of limiting global warming to below 2°C above pre-industrial levels and making efforts to limit warming to 1.5°C – to achieve carbon neutrality before 2050.
	Strategy and targets for greenhouse gas emissions under the Paris Agreement It includes the goals and objectives set by the company in relation to the management of emissions generated by its activity. Progress towards time-bound, science-based targets for greenhouse gas emissions that are consistent with the Paris Agreement goals of limiting global warming to below 2°C above pre-industrial levels and making efforts to limiting warming to 1.5°C. This should include setting a date before 2050 to achieve greenhouse gas neutrality and transitional reductions to meet targets based on the methodologies developed by the Science-Based Targets Initiative, where this is applicable. If an alternative approach is taken, disclose the methodology used to calculate the target values and the basis on which they achieve the objectives of the Paris Agreement.
	Air Pollution Report anywhere along the value chain where it matters: nitrogen oxides (NOx), sulfur oxides (SOx), particulate matter and other significant air emissions. Where possible, calculate the proportion of certain emissions that occur in or near urban/densely populated areas.
	Impact of air pollution Report anywhere along the value chain where it matters: the value impact of air pollution, including nitrogen oxides (NOx), sulfur oxides (SOx), particulate matter and other significant air emissions.
	Circulation of resources Report the most appropriate resource flow metric(s) company-wide and/or at the product, material or facility level as appropriate. Possible indicators include (but are not limited to) The Circular Transition Indicators (WBCSD), indicators developed by the Ellen MacArthur Foundation, and company-prepared indicators.

	Disclose the methodological approach used to calculate the circular indicators and the rationale for selecting the indicator(s). This includes indicators such as: water cycle, use of renewable energy, recycling, extended warranty, etc.
Social	<u>Emancipation and full inclusion of people with disabilities (%)</u> Percentage of employees grouped by the following aspects: employee category, age group, gender and other characteristics.
	<u>Gender pay equity (%)</u> Ratio of basic salary to remuneration for each category of employee in key business locations in relation to priority areas of equality: women to men, minor to major ethnic groups and other relevant areas of equality.
	<u>Compensation level (%)</u> 1. Ratio of standard entry-level salary by gender compared to local minimum wage. 2. Ratio of the CEO's annual income to the median of the total annual income of all its employees.
	<u>Risk of accidents involving children, forced or compulsory labour</u> Clarification of operations and suppliers deemed to be at significant risk of child, forced or compulsory labor incidents. Such risks may arise in connection with: a) individual types of operations and suppliers; and b) countries or geographic areas with operations and suppliers considered at risk.
	<u>Cases of discrimination and harassment (#)</u> Number of cases of discrimination and harassment, status of incidents and actions taken.
	<u>Freedom of association and collective bargaining of working conditions at risk (%)</u> 1. Percentage of the active workforce involved in collective bargaining. 2. Description of the assessment carried out in relation to suppliers where the right to freedom of association and collective bargaining of working conditions are at risk, including the measures taken by the organization to address these risks.
	<u>Overview of Human Rights, Impact of Injustice and Modern Slavery (#, %)</u> 1. Total number and percentage of activities subject to human rights reviews or human rights impact assessments by country. 2. Number and type of reported complaints with associated impacts regarding a significant human rights issue during the reporting period and an explanation of the type of impacts. 3. Number and percentage of activities and suppliers considered to be at significant risk of child, forced or compulsory labor incidents. Such risks may arise in connection with: a) individual types of operations and suppliers; and b) countries or geographic areas with operations and suppliers considered at risk.
	<u>Measuring customer satisfaction</u> The rating a company receives from its customers on the quality of its products and services is known as customer satisfaction. The company provides information on the results of surveys evaluating user satisfaction. These surveys are mainly conducted through interviews or online questionnaires. The enterprise makes public the results of surveys conducted to assess their overall performance and customer satisfaction with specific products or services.
	<u>Health and safety (%)</u>

	1. The number and percentage of deaths as a result of an occupational accident; work-related injuries with major consequences (excluding fatalities); registered work-related accidents; main types of occupational accidents and number of hours worked. 2. An explanation of how the organization facilitates worker's access to non-professional medical and health services and the scope of access provided for employees and workers.
	<u>Employee Wellbeing (#, %)</u> 1. Number of deaths as a result of impaired health, a consequence of work, registered health problems, consequences of the working environment, and the main types of diseases related to the workplace, incl. for all employees and workers. 2. a) Percentage of employees participating in "best practice" programs for health and well-being; and b) Absence rate for all employees.
	<u>Trainings provided (#, €)</u> 1. Average number of training hours per person that the organization's employees spent during the reporting period, grouped by gender and employee category. 2. The average cost of training and development of a full-time employee.
	<u>Absolute size and occupancy rate</u> 1. Total number and percentage of newly appointed employees during the reporting period, classified by age group, gender and other various indicators. 2. Total number and turnover rate of employees during the reporting period, classified by age group, gender and other various indicators.
	<u>Contribution to financial investments</u> 1. Total amount of capital expenditures, minus depreciation expenses, supported by a description of the company's investment strategy. 2. Share buybacks, plus dividends paid, supported by a description of the equity return strategy. Formula $= \frac{\text{Total amount of capital expenditures} - \text{Depreciation expenses}}{\text{Share buybacks} + \text{Dividend payments}}$
	<u>Cyber security</u> In an increasingly digital world, hackers and cyber attacks are a constant threat with the potential to cause significant financial and reputational damage. The focus here is on the optimal protection of customers as well as the company itself. The purpose of the attack may be disruption of normal business activity, theft of and/or access to information, demand for ransom, etc. There is a need to continuously raise employee awareness of cyber risks by providing training in areas such as spam, phishing, abuse and fraud in general. The company's efforts to achieve secure and reliable information systems and robust data protection procedures through constant monitoring of IT systems should be systematically evaluated. It is extremely important to ensure maximum protection and the ability to quickly and effectively respond to possible attacks.
	<u>Total R&D expenditure (€)</u> Total amount of expenses incurred in connection with research and development activity.

	<u>Social value generated (%)</u> Percentage of revenue from products and services created with the intention of contributing to specific societal benefits or addressing specific sustainability challenges.
Governance	<u>Business model</u> The way a company integrates its vision, strategic goals, management, and business operations to generate revenue and make a profit is called a business model. The company provides a comprehensive explanation of its business model and how it creates value. This includes a detailed description of its core business processes and the impact these processes have on society, the environment and stakeholders. In addition, the company outlines the key elements that support value creation, such as its vision, strategic objectives, management structure, etc.
	<u>Goal setting</u> The company's stated purpose, as an expression of the means by which the business offers solutions to economic, environmental and social problems. Corporate purpose should create value for *all stakeholders*[54] , including the shareholders.
	<u>Goal-driven management</u> How the company's stated purpose is reinforced in the company's strategies, policies and strategic objectives.
	<u>Governance body composition</u> Composition of the bodies with management and supervisory functions and its committees on: competences related to economic, environmental and social topics; with or without executive powers; independence; mandate in the governing body; number of other significant positions and commitments of each person and their nature; gender; membership in underrepresented social groups; representation of interested parties.
	<u>Progress against strategic milestone</u> Disclosure of the significant strategic economic, environmental and social milestones expected to be achieved in the next year of the business combination, such as milestones achieved from the previous year, and how these milestones are expected to contribute or have contributed to long-term value.
	<u>Remuneration</u> How the performance criterion relates to remuneration policies in relation to the objectives of the top management body and the employees in management positions in relation to economic, environmental and social topics related to the stated purpose, strategy and long-term value of the company.
	<u>Stakeholder engagement</u> Engagement is defined as a process of communication, consultation and interaction with stakeholders. The company provides information about key stakeholders and how it interacts with them, which includes: identifying the key stakeholder groups, disclosing the topics and concerns raised by each group, and determining the steps the company will take to address them of these problems. Of great importance is the preparation

[54] **Stakeholder** - any person or group of persons who has an interest in an organization and the results **of** its actions. Common examples of stakeholders include shareholders, employees, customers, suppliers, communities and governments.

	of a list of topics that are essential to the key stakeholders and the company, how the topics themselves are defined and in what way the stakeholders are engaged.
	Anti-corruption 1. Total percentage of members of the governing body, employees and business partners who have undergone training dedicated to the anti-corruption policies and procedures of the organization, distributed by profile. 2. Presentation of the initiatives and commitments undertaken by the interested parties to improve the wider work environment and culture in order to fight corruption.
	Ethics consultation and reporting mechanisms provided Description of internal and external mechanisms for: 1. Seeking advice on ethical and lawful conduct, organizational integrity; 2. Reporting matters of extreme importance concerning unethical and illegal conduct, lack of organizational integrity.
	Alignment of strategy and policies to lobbying The significant issues that are the focus of the company's involvement in public policy development and lobbying; the company's strategy related to those focus areas and any differences between its lobbying positions and its purpose, stated policies or other public positions.
	Integrating risks and opportunities as part of the business process Disclosure of company-specific risks and opportunities that clearly identifies the main material risks and opportunities that the company specifically faces (as opposed to general sector risks), the company's appetite for those risks, how those risks and opportunities have changed over time and the response to these changes. These risks and opportunities should include substantive economic, environmental and social issues, including climate change and data governance.
	Economic, environmental and social topics in the capital allocation framework How the highest governance body considers economic, environmental and social issues when overseeing major capital allocation decisions, such as expenditures, acquisitions and divestments.
	External assessment of the credibility of the disclosed information Validation of corporate disclosures is a process that involves a third-party verification of the reliability, accuracy and relevance of the information that the corporation has disclosed. The company should disclose whether it uses a third party to validate the information it discloses.

For credit institutions (they are the subject of research in the third chapter of the dissertation), an additional group of indicators for integrated sustainability reporting and disclosure related to the specifics of their activity is proposed.

The disclosures of credit institutions should cover two perspectives - the financial impact that ESG metrics (ESG factors) have on the economic and financial activities of the institutions (external perspective), and on the other hand - the ESG factors that may be triggered as a result of the same activities of the institutions, which in turn acquire materiality of a financial nature when they affect the interested parties of the institutions (internal perspective). Therefore, disclosures should provide sufficiently comprehensive and comparable information on ESG risks, enabling users of the information to assess the institutions' risk profile[55].

The practical applicability of the presented guidelines for refinement and improving the existing methods and approaches regarding the accounting of business combinations is proven in the third chapter of the dissertation, which reflects one of the largest merger transactions ever carried out in the banking system of our country, namely the amalgamation of Societe Generale Expressbank AD into DSK Bank EAD.

As a result of the business combination, "Expressbank" JSC was terminated without liquidation and all its assets passed to "DSK Bank" EAD, which became its universal legal successor.

Point 3.1. of the dissertation presents the commercial profiles of the acquiring and the acquired company before the realization of the business combination. In the considered example, the acquiring bank is Bank DSK EAD, which holds a universal license for carrying out banking activities. Its capital amounts to 1 327 482 000 (one billion three hundred and twenty-seven million four hundred and eighty-two thousand) BGN, fully paid up and divided into 132 748 200 (one hundred and thirty-two million seven hundred and forty-eight thousand and two hundred) ordinary dematerialized, registered shares with voting rights, with a nominal value of 10 (ten) BGN each. Accordingly, the acquired bank is Societe Generale Expressbank AD, also possessing a universal license for carrying out banking activities. The capital at its disposal is 33 673 729 (thirty-three million six hundred and seventy-three thousand seven hundred and twenty-nine) BGN, fully paid up and divided into 33 673 729 (thirty-three million six hundred and seventy-three thousand seven hundred and twenty-nine) ordinary dematerialized, registered shares with voting rights, with a nominal value of BGN 1 (one) each.

On August 1, 2018, a contract for the sale of 33 584 555 (thirty-three million five hundred and eighty-four thousand five hundred and fifty-five) number of dematerialized, registered shares with the right to vote, with a nominal value of BGN 1 each, representing 99.7352% (ninety-nine whole and seven thousand three hundred and fifty-two ten thousandths percent)

[55] COMMISSION IMPLEMENTING REGULATION (EU) 2022/2453 of 30 November 2022 amending the implementing technical standards set out in Implementing Regulation (EU) 2021/637 with regard to the disclosure of environmental, social and governance risks

of the registered share capital of Societe Generale Expressbank AD in the amount of 33 673 729 (thirty and three million six hundred and seventy-three thousand seven hundred and twenty-nine) BGN, owned by "Societe Generale" S.A. (France).

With Decision No. 280 of 14.11.2018 **The Management Board of the BNB authorizes the direct acquisition by DSK Bank EAD** of shares representing 99.7352% of the registered share capital **of Societe Generale Expressbank AD**, with the new name Expressbank AD, as well as the indirect acquisition of the same shareholding by OTP BANK AD, Budapest, joint-stock company registered in the Republic of Hungary

Bank DSK EAD acquires 99.7352% of the acquired bank's shares in accordance with the authorization for concentration received from the CPC - Decision No. 1413/13.12.2018.

On February 27, 2020 The Board of Directors of the Bulgarian National Bank makes a decision to authorize the conversion of Expressbank AD through an amalgamation pursuant to Art. 262 of the Commercial Act in Bank DSK EAD. The infusion process is expected to be completed within May 2020.

Based on the fair price of the shares of the receiving bank and the converting bank, the exchange ratio of the shares of the shareholders of the converting bank, calculated as of 30.09.2019, is fixed at 1 share of the converting bank for 1.3223 shares of the receiving bank bank. To achieve an equivalent exchange ratio due to the impossibility of exchanging each shareholder's shares for shares in the receiving bank of fully equivalent value, the difference to that equivalent value representing the fair value of the fractional parts that do not form a whole share of the capital of the receiving bank and are obtained by applying the exchange ratio, cash payments have been made. The amount of cash payments is obtained as a product of the value of the fractional parts and the fair price of one share from the receiving bank. The total amount of cash payments thus obtained amounts to BGN 3 303.58 (three thousand three hundred and three hundred BGN and 58 cents), which amount does not exceed 10% of the total nominal value of the new shares in connection with the capital increase of the receiving bank, to the extent that it is necessary to create new shares for the shareholders of the converting bank, for which the law permits the issuance of such shares.

The commercial profile of the merged company after the realization of the business combination is presented in **point 3.2.** from the dissertation. As a result of the carried out commercial transformation by amalgamation, the capital of the transferee - "DSK Bank" EAD, increases from 1 327 482,000 (one billion three hundred and twenty-seven million four hundred and eighty-two thousand) BGN, distributed in 132 748 200 (one hundred and thirty two million seven hundred forty-eight thousand two hundred) number of ordinary dematerialized, registered voting shares, with a nominal value of BGN 10 (ten) each, to 1 328 659 920 (one billion three hundred and twenty-eight million six hundred and fifty-nine thousand and nine hundred and twenty) BGN, divided into 132 865 992 (one hundred and thirty-two million eight hundred and sixty-five thousand and nine hundred and ninety-two) number of ordinary, dematerialized, registered voting shares, with a nominal value of 10 (ten) BGN each.

Issuing Decision No. 64 of February 27, 2020, the BNB Board of Governors gives its approval for the amendments to the charter of DSK Bank EAD, adopted on the basis of the conversion by infusion within the meaning of Art. 262 of the Commercial Act of "Expressbank" AD in "DSK Bank" EAD. As a result of the adopted decisions, including and the capital increase of "DSK Bank" EAD, and the acquisition of the shares from the increase by the shareholders of "Expressbank" AD "DSK Bank" EAD ceases to be a single joint stock company, which respectively imposes changes in its articles of association.

Point 3.3. of the dissertation presents the practical applicability of the derived guidelines for refinement and improvement of the existing methods and approaches regarding the accounting presentation of business combinations in the company's financial statements. The two banks agree that in the sense of Art. 263g, para. 2, item 7 of the Commercial Act, the actions of the converting bank will be considered to have been carried out at the expense of the receiving bank for accounting purposes from the moment the conversion is entered in the commercial register - the date of the merger, which is 04/30/2020. United Bank prepares its accounts in accordance with all International Financial Reporting Standards approved by the International Accounting Standards Committee.

As of December 31, 2020, goodwill in the amount of BGN 77,372 thousand, which arose as of April 30, 2020 upon the amalgamation of Expressbank AD, was reported in the individual statement of financial position of DSK Bank. Goodwill was initially determined on the date of acquisition of Expressbank AD by DSK Bank Group on January 15, 2019 and is fully allocated to the acquired bank as a cash-generating unit in the consolidated financial statements of DSK Bank for 2019. In the amalgamation of Expressbank AD into DSK Bank AD, the purchase approach was followed according to IFRS 3 "Business Combinations", and goodwill was recognized in the individual financial statements of DSK Bank. The combined bank forms the new cash-generating unit to which the goodwill is allocated.

The specific accounting entry that is made in connection with the charging of amortization of acquired goodwill is a debit to the operating account Amortization expenses and a credit to the adjustment account Amortization of goodwill:

Dr acc. Amortization expenses

Cr acc. Amortization of goodwill

The item above affects both the statement of profit or loss and other comprehensive income as an expense recognized in the current period and the statement of financial position as an adjustment that reduces the carrying amount of goodwill. In the case under consideration, the systematic amortization of goodwill through the application of the linear method of amortization begins from April 2020 and will continue until March 2025.

Retrospective charging of amortization expense results in a 2020 earnings decline of 5.41%, while 2021 earnings decline stands at 3.54%. This, in turn, leads to a true and fair presentation of the company's financial and property status, since the principle of comparability between income and expenses is already respected by charging amortization expenses.

As already mentioned, although relatively rare, there are unusual cases in which there is a bargain purchase in the implementation of business combinations. In Bulgarian banking practice, this is the case with the acquisition of Bank "Victoria" EAD by "Investbank" AD, in which the latter reports a bargain purchase in the amount of BGN 22 577 thousand.

In addition, point 3.3. presents the practical applicability of the Modified Framework for Systematic and Consistent Reporting of Long-Term Value Creation, offering a set of 35 common indicators for systematic and consistent reporting of long-term value creation, enhancing the awareness of users of general purpose financial statements, will presentable, including them in the disclosures to the reports of DSK Bank for 2019, 2020 and 2021 (see Table 6, Table 7 and Table 8). **The following conclusions were reached**:

1) the number of integrated reporting indicators published by DSK Bank AD, according to the Modified Framework for Systematic and Consistent Reporting of Value Creation in the Long-Term Plan, although not large, within the 3-year period is increasing;

2) information on stakeholder engagement has been released in both 2020 and 2021;

3) in the fourth quarter of 2021, thanks to the launched ECO project, the Bank for the first time reported on significant climate risks and opportunities;

4) pilot in 2021 DSK Bank announces its intention to define quantitative and qualitative key indicators by which to evaluate and monitor its performance on the way to achieving the goals set by the OTP Bank Group and those that will be set with the adoption of DSK Bank's ESG strategy in the second quarter of 2022, and also to begin reporting progress against key priorities.

Considering the presented set of 35 indicators for systematic and consistent reporting of value creation in the long term, the disclosures, according to the Modified Framework, are not at the expected high level for DSK Bank, which can partly, of course, be explained by its optional this moment character.

Conclusion

In today's corporate world, many organizations are pooling forces and resources in response to a rapidly and continuously changing environment. Globalization, accelerated technological breakthroughs, increasingly short product life cycles and, in many places, stagnant markets place companies in front of increasing competitive pressures that require them to effectively deal with new challenges in terms of their national and international competitiveness. In this context, business combinations are important strategic models for company growth and restructuring. There are very few economic phenomena that, despite their complexity, manage to attract interest in the scientific research sphere as much as business associations. This is because these types of restructurings are among the largest investments a company can undertake.

The second part of the second chapter of the dissertation, containing the critical analysis of the presentation of business combinations in the company's financial statements, according to IFRS 3, occupies a central place in its structure. The analysis itself was carried out in relation to:

a) the concept of fair value;

b) the subsequent accounting of goodwill in connection with the non-charging of amortization expenses.

The main conclusions resulting from the critical analysis are that:

- the concept of fair value, on the one hand, deficient in that it is a derivative of the efficient market hypothesis, which has been proven invalid and which, in turn, originates from the invisible hand of Adam Smith, and, on the other hand, as a theory with internal its inherent shortcomings, it urgently needs to be revised because:

- a certain minimum volume of transactions is missing, in cases where the volume or activity for a given asset or liability has decreased significantly, which calls into question the legitimacy of the thus determined fair value;

- the explicit clarification in paragraph 17 of IFRS 13 Fair Value Measurement that an entity is not required to undertake an exhaustive search of all possible markets in order to establish the principal market, resulting in individual companies often resorting to using the most the advantageous market for an asset or liability instead of the underlying market. Market selection by reference to the most advantageous one introduces a company-specific fair price, as different market participants trade in different markets. All of this is in dichotomy with the objective of fair value valuation, namely to calculate the price for which an asset would be sold or a liability transferred in an ordinary transaction between market participants at the valuation date under prevailing market conditions at that exact moment.

- the replacement of the requirement to charge amortization with an impairment test should urgently be reversed because:

- the notion that the value of goodwill acquired as a result of a business combination remains unchanged over time is extremely wrong. Goodwill acquired as a result of a business combination is unable to generate cash flows without the help of other assets. It indirectly draws from the costs incurred in connection with the company's activities, including costs of advertising, staff training, research and development, etc. Its value is supported by a number of additional costs, which only lead to the generation of internally generated goodwill. Amortization of goodwill ensures that acquired goodwill is recognized in profit or loss and there is no internally generated goodwill to be recognized as an asset in its place, giving rise to an inconsistency with the prohibition in IAS 38 Intangible Assets on not recognizing internally generated goodwill;

- the goodwill impairment test lacks objectivity, as the company has the freedom to only determine key variables involved in determining the impairment that has occurred, such as the growth rate and the discount rate.

The practical applicability of the presented guidelines for refinement and improvement of the existing methods and approaches regarding the accounting of business combinations is proven in the final chapter of the dissertation, which reflects one of the largest merger transactions ever carried out in the banking system of our country, namely the amalgamation of Societe Generale Expressbank AD into DSK Bank EAD.

Accounting for business combinations is one of the most interesting, but at the same time, one of the most complex topics in accounting theory and practice. They affect the destinies of numerous companies, are high-risk, involve financial transactions of enormous proportions, stories of success and failure. A number of global studies, some conducted at Cass Business School, show that only 30-40% of mergers and acquisitions are successful[56]. In addition, according to a study by McKinsey and Company, 70% of business combinations do not reach the revenue synergy they set as a goal, while in the case of cost synergy this share amounts to 40%[57]. In addition, corporate restructurings are also subject to intensive regulations, which in turn predetermines the frequent need to resort to the services of various professionals - mainly persons external to the company. Sometimes arise expenses, the amount of which is difficult to determine precisely. Some of them may be completely unpredictable, such as the unanticipated legal liabilities that may arise after an acquisition. The best way for companies to deal with this type of expense is to undertake detailed due diligence. The consequences of one done poorly can be quite serious, as was the case with Bayer's acquisition of Monsanto. After acquiring Monsanto, Bayer assumed all of its liabilities, including 13,400 glyphosate-related lawsuits, which subsequently exceeded 50,000 cases[58] (their proposed weed killer, Roundup, contains glyphosate, which is suspected of causing cancer). Here we would like to explicitly

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[56] Moeller, Sc. Surviving M&A: Make the most of your company being acquired, John Wiley & Sons, 2009, p. 36.

[57] Dickie, R. Financial Statement Analysis and Business Valuation for the Practical Lawyer, American Bar Association, 2006, p. 338.

[58] Ferrell O., J. Fraedrich, L Ferrell. Business Ethics: Ethical Decision Making and Cases, Thirteenth edition, Cengage, 2022, p. 393.

emphasize that the popular belief that due diligence should be performed only by the buyer is extremely incorrect. While the seller's due diligence checklist is far more modest than the buyer's due diligence checklist, it should at least be performed for the acquiree to determine whether the acquirer has sufficient funds to complete the transaction.

The market of mergers and acquisitions does not stand aside from the ongoing process of globalization, and the share of completed cross-border transactions is becoming more and more significant. For the first time in the history of mergers and acquisitions, their value on a global scale exceeded $5 trillion in 2021, bettering the previous record of $4.55 trillion in 2007, according to data from Dealogic. According to Refinitiv data, the total value of transactions completed in 2021 amounted to $5.9 trillion, representing a 64% increase over the previous year.

Business combinations are an essential element of the corporate strategies of a number of companies. Thanks to them, various sectors of the economy are restructured, which greatly facilitates companies in terms of the rapid expansion of their business internationally. The complexity of business combinations is dictated by their interdisciplinary nature, which accordingly gives rise to the need for their holistic consideration and understanding.

IV. SCIENTIFIC AND SCIENTIFIC – APPLIED CONTRIBUTIONS IN THE DISSERTATION

The significance of the research in the dissertation both from the point of view of theory and practice, as well as its main contributions are expressed in the following:

- a comprehensive historical review of the separate waves of mergers and acquisitions was carried out, which is related to exhaustive analysis and consistent synthesis of a large volume of information. Most of the studies devoted to the historical development of the phenomenon are highly fragmented by country, time period, and one of the most common shortcomings is that they cover only certain industries and sectors of the economy[59], thus leaving behind significant gaps that need to be addressed. Macroeconomic conditions, government regulations, and technological advances drive the emergence and development of M&A waves. Conducting

[59] Auerbach, A. Mergers and acquisitions. The University of Chicago Press, 1991, p. 28 – 36.

a thorough review, analysis and evaluation and obtaining extensive knowledge of the historical course of mergers and acquisitions would significantly reduce the mistakes made in the process of business combinations and also the number of failed deals.

- existing vices in the concept of fair value have been eliminated, so that the latter can bear the name fair, by means of presenting the justified proposal in the absence of a principal market for a given asset or liability and in the impossibility of determining the fair value except by formulating unobservable hypotheses (hypotheses of III – level), then instead of fair value, the accounting valuation should be carried out at the acquisition price, which in the specific cases would help to achieve a much more reliable valuation. It is also necessary to introduce a certain minimum required amount of transactions below which the volume or activity for the asset or liability is considered to have significantly decreased.

- the necessity of introducing mandatory charging of goodwill amortization expenses on a systematic basis during its useful life is proven. For the majority of business combinations, the most appropriate and appropriate method of amortization would be the straight-line method, because it would reflect the gradual consumption of goodwill. In addition, the useful life of the acquired goodwill is also determined, which in our opinion is directly dependent on the necessary time period for full integration of the business combinations. After carrying out a comprehensive and in-depth review of the world literature dedicated to the issue, we came to the conclusion that this period should be 5 years.

- a proposal was presented for the inclusion of integrated reporting indicators in the disclosures to IFRS 3 Business combinations in their role as non-financial measures of the success of business combinations, which will increase the awareness of users of general purpose financial statements. The need for this arises from the fact that, in addition to the universal legal succession in business combinations of all rights, obligations and modalities of one legal entity or fractional parts of them passing to another entity, business combinations influence and have an impact outside the framework of the companies involved in the transformation – customers, suppliers, investors, regulatory authorities, competitors, etc. Suitable for achieving this goal is the proposed set of 35 common indicators for systematic and consistent reporting of long-term value creation.

V. LIST OF PUBLICATIONS ON THE TOPIC OF THE DISSERTATION

Articles

1. Article „Genesis and peculiarities of the concept of integrated reporting. Correlation between integrated reporting and COSO model", ICPA magazine, № 3, 2019.

2. Article „Financial reporting in the context of the global pandemic COVID-19 – irrefutable evidence of unprecedented weight for the necessity of transition to integrated reporting", ICPA magazine, № 4, 2020.

3. Article „Initial recognition, measurement and disclosures of business combinations in the company's financial statements according to IFRS 3 Business combinations", ICPA magazine, № 3, 2022.