CORPORATE ACCOUNTING AND FINANCIAL STATEMENT ANALYSIS

Practical Analytical Report

Corporate Restructuring: Financial Statement Impact of Mergers and Liquidations

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Programme/Course: Bachelor in Business Administration and management

Submission date: 10/21/2026

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Executive Summary

This report focuses on contrasting the financial statement impact on company restructuring in the form of mergers, acquisitions and company liquidation. It discusses the accounting framework and regulatory environment, the valuation on acquisition date, consolidation, goodwill, asset measurement, liability measurement and the consequences of liquidation. A hypothetical acquisition model could be used to illustrate the effect of "fair value adjustments" and "goodwill" on the balance sheet, while a separate liquidation schedule could help to illustrate the difference between carrying amount and "estimated realizable proceeds."

The analysis shows that corporate restructuring could impact reported value of assets, liabilities, equity, leverage, depreciation and amortization, impairment exposure and other items and future earnings. These changes impact lenders, stock holders, employees, suppliers and management. The report recommends specific best practices such as independent valuation, due diligence, assumptions made during the transaction that should be transparent, and scenario analysis and/or a monitoring period post-transaction. The figures provided are not actual company figures but are just examples. Claims treatment and their legal priority are to be determined by the accounting principles to be followed within the framework and jurisdiction of the entity.

1. Introduction

Corporate restructuring involves any transaction that involves changing ownership, scope of operations, capital structure or legal status of a company. Mergers and acquisitions can be done for economies of scale, to gain access to new markets, to acquire technology, or to integrate complementary capabilities. Liquidation is distinct, it means winding up an entity, liquidating its assets, paying its debts and dividing the remaining funds among the members pursuant to the applicable law.

The events have significant financial-reporting implications. A goodwill impairment may be required when there is an acquisition, in which assets and liabilities are measured at fair values as of the acquisition date. Consolidation alters the presentation of their assets and liabilities, income and expenses. Liquidation may necessitate changes in the assumptions regarding the recoverability of assets and whether the entity will continue as a going concern. The aim of this report is to elucidate the effects of these on the basis of accounting principles, numerical examples, and managerial suggestions.

2. Accounting Framework and Regulatory Context

2.1 Business combinations and acquisition accounting

In the first place, the acquisition method is typically used when an acquirer comes to a business. It involves determining the acquirer, the date of acquisition, recognizing identifiable assets acquired and liabilities assumed, measuring relevant items under the standard and recognizing goodwill or a bargain purchase gain, if relevant (IFRS Foundation, n.d.-a). The accounting framework to be used must be identified as it can be influenced by the scope exceptions, accounting framework and transaction structure.

Acquisition accounting isn't just the continuation of the historical book value of the acquiree. Intangible assets that are identified and measurable can consist of certain customer

relationships, technology, brands, licenses, or contractual rights. Fair value adjustments may impact balance sheet and future depreciation, amortization, deferred tax and impairment. The valuation process must be documented and have supporting evidence.

2.2 Consolidated financial statements

Normally, when an acquirer has control over a subsidiary, consolidated financial statements are prepared to present the parent and subsidiary as an economic unit, in accordance with the applicable standard. The group is composed of assets, liabilities, income, expenses and cash flows to which all relevant assets and liabilities, income and expenses and cash flows are added, with the exception of intra-group balances and transactions. While consolidation can lead to various assets and liabilities being reported on a consolidated balance sheet, it does not necessarily result in a material increase in the group's underlying cash generation.

Users must note that consolidated results should not be confused with the results of the parent company's separate financial statements. The ratios can be different after consolidation, as the denominator and numerator fluctuate; for instance, debt-to-equity may increase if financing for acquisitions increases borrowings, and return on assets may decline initially if acquired assets grow at a higher rate than profits.

2.3 Goodwill and impairment

The term goodwill typically refers to future economic benefits that are generated from the acquired items that were not considered separable and therefore not recognized. IFRS 3 defines goodwill based on the IFRS 3 prescribed components and measurement rules. IFRS (IFRS Foundation, n.d.-b) does not allow goodwill impairment losses to be reversed and IAS 36 requires the allocation of goodwill to relevant cash-generating units (or groups of units) and the testing for impairment as required. Other systems may vary.

In the case of a goodwill transaction, there is no guarantee of success. It could be the expected synergies, the assembled workforce or other benefits, but the expectations rely on future performance. Actual cash flows could be below the forecasted amounts, affecting profit and equity. Management should thus keep its forecasts realistic and report any material uncertainties and assumptions. Consider regulatory and liquidation aspects. Take into account regulatory and liquidation issues.

2.4 Liquidation and regulatory considerations

The liquidation involves a clear and concise asset and liability showing, contingent claims and winding-up costs. The priority of the payments will depend on the jurisdiction and is to be determined based on the applicable company and insolvency law. A report should not imply that all the creditors are equally covered, or that a distribution is made to the shareholders simply because the book equity is positive.

There are relationships between accounting standards and commercial regulations. Recognition, measurement, presentation and disclosure are governed by the reporting framework, and the company and insolvency laws govern the legal processes, approvals, rights of creditors and distributions. For instance, in a scenario where a company is involved in India, the relevant provisions of the Companies Act may be applicable along with the insolvency regime and the same should be verified for the particular facts and not assumed.

3. Financial Calculations and Diagnostic Analysis

3.1 Hypothetical acquisition

Suppose that Company A acquires Company B. The figures mentioned below are hypothetical and in ₹ crore. The amount of consideration transferred is ₹100 Crore. The Company B's identifiable assets at acquisition date have a fair value of ₹125 crore and the assumed liabilities have a fair value of ₹45 crore. In this simplified calculation, assume no

adjustment for previously held interest or any acquisition-date adjustments, and do not consider non-controlling interest.

Item	Illustrative amount (₹ crore)
Consideration transferred	100
Identifiable assets at fair value	125
Liabilities assumed at fair value	45
Identifiable net assets (125 − 45)	80
Illustrative goodwill (100 − 80)	20

The net assets that can be identified are ₹125 crore minus ₹45 crore, which is ₹80 crore. The simplified assumptions lead to an illustration of goodwill of ₹20 crore when considering ₹100 crore. Measurement requirements may include non-controlling interests, previously held interests, contingent consideration, deferred tax, and other requirements that would follow the applicable standard, and would be included in a complete real-world calculation.

3.2 Illustrative balance-sheet effect

Item	Before acquisition: Company B	Acquisition-date illustration
Identifiable assets	125	125 at assumed fair value
Liabilities assumed	45	45 at assumed fair value
Identifiable net assets	80	80
Goodwill recognised	0 in this simplified target-only view	20

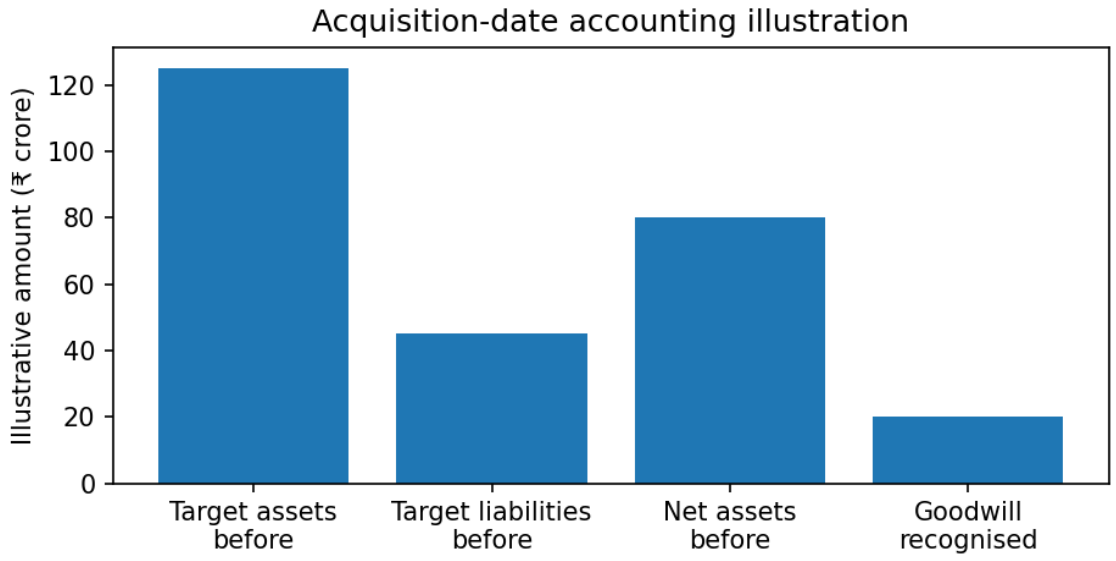


Figure 1. Illustrative acquisition-date amounts; values are hypothetical. Source- Self

The table separates out the acquisition calculation and does not provide a consolidated balance sheet. In practice, the balances of the acquirer, the financing for the acquisition, the transaction costs, tax effects, fair-value adjustments, and transaction consolidation eliminations

would also be part of the post-transaction balances. If funded with debt, the transaction could result in an increase in assets and an increase in liabilities. If funded using equity, the accounts for share capital and related equity accounts may change.

3.3 Financial ratios and performance interpretation

The impact of a merger on ratios relies on the purchase price, financing structure, target profitability objectives and integration results. The increase in leverage and interest expense may result from higher borrowings. A higher asset base will lower the ROA on the first pass, especially if expected synergies are not realized for a while. Goodwill is an asset that can cause a loss of profit and equity without an equivalent cash flow in the period of impairment, but it does indicate that prior expectations were not met.

Diagnostic measure	Purpose	Possible post-merger issue
Debt-to-equity	Assesses financial leverage	May rise if debt funds the acquisition
Interest coverage	Tests operating profit against interest	May weaken when financing costs rise
Return on assets	Measures profit relative to assets	May fall if assets increase before earnings
Operating cash flow	Shows cash generated by operations	May lag accounting profit during integration
Goodwill impairment	Tests whether acquisition value remains supportable	May reduce reported profit and equity

4. Before-and-After Financial Statement Model

A before and after model should be used to differentiate changes in balances at the transaction date and effects after the transaction date. The acquisition-date model includes fair-value recognition and goodwill and subsequent periods include depreciation or amortization on relevant assets, interest expense on acquisition financing, integration costs, operating results, and impairment. The next summary is a conceptual one and can be expanded in a spreadsheet for a particular transaction.

Financial statement area	Potential merger effect	Analytical check
Balance sheet	Recognise acquired assets/liabilities; possible goodwill	Reconcile fair values and acquisition consideration
Income statement	Additional revenue and costs; depreciation/amortisation; interest	Compare actual results with forecast
Cash-flow statement	Acquisition cash payment and financing flows	Separate investing, financing, and operating effects
Equity	May change through share issuance, retained earnings, or impairment	Trace funding structure and post-deal results
Notes and disclosures	Business-combination details and key estimates	Check completeness and compliance with framework

A helpful spreadsheet would have a base case, a downside case and an upside case. The growth of the revenues, their margin, the discount rates, integration costs and timing, should be manipulated individually and collectively. This sensitivity analysis helps to determine if the transaction can stand the test of bad times.

5. Liquidation Accounting and Asset Realisation

5.1 Realisable values versus carrying values

Liquidation can give rise to proceeds other than carrying amounts. Receivables can be made less easy to collect; inventory can have to be sold for a reduced price; and specialized equipment may not sell as well. Other winding up costs such as disposal costs, employee obligations, taxes, legal costs and others diminish the amount available to creditors or shareholders.

5.2 Illustrative liquidation schedule

Item	Book value (₹ crore)	Estimated proceeds/payment (₹ crore)
Cash and bank	10	10
Receivables	20	17
Inventory	15	11
Property and equipment	35	28
Total asset proceeds	80	66
Liabilities to be settled	—	50
Estimated liquidation costs	—	4
Illustrative residual before distribution	—	12

The illustration assumes that the proceeds of the assets are ₹66 crore, the liabilities of the company are ₹50 crore and the liquidation expenses come out to be ₹4 crore, which results in ₹12 crore remaining in the company before considering any other claim, taxes, priority

adjustments, or distribution requirements. Is not a legal distribution "waterfall. The order of payment shall be decided on the basis of the provisions of the applicable law and facts.

5.3 Going-concern assessment

Management should review the ability of the entity to continue its operations, availability of finance and whether obligations can be met when due. In the event of liquidation or cessation of business, the basis of preparation and related disclosure may have to change as per the reporting framework applied. Cash-flow projections, Debt Maturity, asset sales estimates and professional legal and accounting advice should be used to support the decision.

6. Discussion and Managerial Implications

Technical and strategic are two sides of the financial-statement impact of restructuring. One transaction can lead to reported assets and liabilities being raised, and also put a strain on cash flows. Changes in goodwill and changes in the value for fair value accounting adjustments could have a significantly positive effect on future earnings from amortization, depreciation or impairment. Thus, investors should not enter into the trade based on an increase in the revenues and/or size of the merged entity.

With regard to the business motive, it is important that boards and management fully understand it, so that if the worst-case scenarios do indeed occur, funding is affordable. With respect to the assumptions about the purchase price, it is critical that their assumptions are independently questioned as they have no way to gauge the accuracy of the price calculations without performing their own due-diligence. The due-diligence checklist should be exhaustive, and the funding amount must be affordable in the event the downside scenarios do come true. Finance activities should have an auditable purchase-price allocation, confirm consolidation entries and explain material estimates. The organization should monitor continuing effectiveness

of the synergy delivery mechanism, customer attrition, employee attrition, changes in integration budget, working capital performance and return on invested capital once implemented.

These are the main points to consider when liquidating: keeping proper records, evaluating all asset realizable realistically, identifying all claims completely, conducting the process correctly and communicating fairly with stakeholders. A liquidation model needs to be subject to a check since the priorities on payments in different jurisdictions are different when using it to predict recovery of creditors or shareholders in liquidation.

7. Conclusion and Strategic Recommendations

Accounting and/or presentation (transformation of financial statements) changes sometimes are substantial and may stem from, for instance, mergers, acquisitions or from a liquidation. In all cases, financing involves recognition of assets and liabilities (as of acquisition date), and the recognition of good will; consolidation involves combining group balances, eliminating intra-group items; and analysis related to liquidation involves realizable proceeds, intra-group obligations, and costs. Numerical examples give little insight into accounting evaluation of a transaction; rather, they give insight into mechanics of the transaction.

The report recommends the following: (1) have a documented accounting framework and regulatory setting for the acquisition accounting; (2) conduct pre- and post-acquisition tax, legal and financial due diligence; (3) prepare purchase price allocation documentation; (4) prepare pre-post-acquisition financial statements and test leveraging, cash availability and interest coverage and cash flow under a range of scenarios; (5) monitor for goodwill impairment indicators after acquisition; and (6) during liquidation, estimate realistic asset proceeds, identify all claims/costs, and seek advice on claims prioritization from local advisors in each jurisdiction. This will assist in tracking/providing better reporting and better management decisions.

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Appendix A: Spreadsheet Output and Financial Statements

Spreadsheet schedule	Formula / approach	Purpose
Identifiable net assets	Fair value of identifiable assets − fair value of liabilities assumed	Calculate acquisition-date net assets
Illustrative goodwill	Consideration − identifiable net assets (simplified example only)	Demonstrate residual goodwill calculation
Liquidation residual	Estimated asset proceeds − liabilities payable − liquidation costs	Estimate residual before legal distribution rules
Interest coverage	Operating profit / interest expense	Assess capacity to service debt
Return on assets	Profit measure / average total assets	Compare asset efficiency before and after

Appendix B: Calculation Notes and Assumptions

All values are hypothetical and are included solely to demonstrate the analysis. The goodwill calculation is simplified and omits components that may be required by the applicable accounting standard. The liquidation schedule does not establish legal priority among claims. A spreadsheet submission should include formulas in cells rather than only typed results, and should clearly label assumptions, units, and scenario changes.