

*Status: Point in time view as at 01/02/1991.*

*Changes to legislation: There are currently no known outstanding effects for the Companies Act 1985, Cross Heading: Acquisition and merger accounting. (See end of Document for details)*

## SCHEDULES

### [<sup>F1</sup>SCHEDULE 4A E+W+S

#### FORM AND CONTENT OF GROUP ACCOUNTS]

##### Textual Amendments

- F1** Sch. 4A inserted (subject to the transitional and saving provisions in S.I. 1990/355, arts. 6–9) by Companies Act 1989 (c. 40, SIF 27), ss. 5(2), 213(2), Sch. 2

##### Modifications etc. (not altering text)

- C1** Sch. 4A extended (with modifications) (E.W.S.) (19.12.1993) by S.I. 1993/3245, reg. 3(3)(d) (as amended (1.10.2005) by The Insurance Accounts Directive (Miscellaneous Insurance Undertakings) (Amendment) Regulations 2005 (S.I. 2005/1985), reg. 2(2)(a))

#### [<sup>F1</sup> Acquisition and merger accounting]

##### Textual Amendments

- F1** Sch. 4A inserted (subject to the transitional and saving provisions in S.I. 1990/355, arts. 6–9) by Companies Act 1989 (c. 40, SIF 27), ss. 5(2), 213(2), Sch. 2

- 7 (1) The following provisions apply where an undertaking becomes a subsidiary undertaking of the parent company.
- (2) That event is referred to in those provisions as an “acquisition”, and references to the “undertaking acquired” shall be construed accordingly.
- 8 An acquisition shall be accounted for by the acquisition method of accounting unless the conditions for accounting for it as a merger are met and the merger method of accounting is adopted.
- 9 (1) The acquisition method of accounting is as follows.
- (2) The identifiable assets and liabilities of the undertaking acquired shall be included in the consolidated balance sheet at their fair values as at the date of acquisition.
- In this paragraph the “identifiable” assets or liabilities of the undertaking acquired means the assets or liabilities which are capable of being disposed of or discharged separately, without disposing of a business of the undertaking.
- (3) The income and expenditure of the undertaking acquired shall be brought into the group accounts only as from the date of the acquisition.

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- (4) There shall be set off against the acquisition cost of the interest in the shares of the undertaking held by the parent company and its subsidiary undertakings the interest of the parent company and its subsidiary undertakings in the adjusted capital and reserves of the undertaking acquired.
- For this purpose—
- “the acquisition cost” means the amount of any cash consideration and the fair value of any other consideration, together with such amount (if any) in respect of fees and other expenses of the acquisition as the company may determine, and
- “the adjusted capital and reserves” of the undertaking acquired means its capital and reserves at the date of the acquisition after adjusting the identifiable assets and liabilities of the undertaking to fair values as at that date.
- (5) The resulting amount if positive shall be treated as goodwill, and if negative as a negative consolidation difference.
- 10 (1) The conditions for accounting for an acquisition as a merger are—
- (a) that at least 90 per cent. of the nominal value of the relevant shares in the undertaking acquired is held by or on behalf of the parent company and its subsidiary undertakings,
  - (b) that the proportion referred to in paragraph (a) was attained pursuant to an arrangement providing for the issue of equity shares by the parent company or one or more of its subsidiary undertakings,
  - (c) that the fair value of any consideration other than the issue of equity shares given pursuant to the arrangement by the parent company and its subsidiary undertakings did not exceed 10 per cent. of the nominal value of the equity shares issued, and
  - (d) that adoption of the merger method of accounting accords with generally accepted accounting principles or practice.
- (2) The reference in sub-paragraph (1)(a) to the “relevant shares” in an undertaking acquired is to those carrying unrestricted rights to participate both in distributions and in the assets of the undertaking upon liquidation.
- 11 (1) The merger method of accounting is as follows.
- (2) The assets and liabilities of the undertaking acquired shall be brought into the group accounts at the figures at which they stand in the undertaking’s accounts, subject to any adjustment authorised or required by this Schedule.
  - (3) The income and expenditure of the undertaking acquired shall be included in the group accounts for the entire financial year, including the period before the acquisition.
  - (4) The group accounts shall show corresponding amounts relating to the previous financial year as if the undertaking acquired had been included in the consolidation throughout that year.
  - (5) There shall be set off against the aggregate of—

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- (a) the appropriate amount in respect of qualifying shares issued by the parent company or its subsidiary undertakings in consideration for the acquisition of shares in the undertaking acquired, and
    - (b) the fair value of any other consideration for the acquisition of shares in the undertaking acquired, determined as at the date when those shares were acquired,

the nominal value of the issued share capital of the undertaking acquired held by the parent company and its subsidiary undertakings.
  - (6) The resulting amount shall be shown as an adjustment to the consolidated reserves.
  - (7) In sub-paragraph (5)(a) “qualifying shares” means—
    - (a) shares in relation to which section 131 (merger relief) applies, in respect of which the appropriate amount is the nominal value; or
    - (b) shares in relation to which section 132 (relief in respect of group reconstructions) applies, in respect of which the appropriate amount is the nominal value together with any minimum premium value within the meaning of that section.
- 12
- (1) Where a group is acquired, paragraphs 9 to 11 apply with the following adaptations.
  - (2) References to shares of the undertaking acquired shall be construed as references to shares of the parent undertaking of the group.
  - (3) Other references to the undertaking acquired shall be construed as references to the group; and references to the assets and liabilities, income and expenditure and capital and reserves of the undertaking acquired shall be construed as references to the assets and liabilities, income and expenditure and capital and reserves of the group after making the set-offs and other adjustments required by this Schedule in the case of group accounts.
- 13
- (1) The following information with respect to acquisitions taking place in the financial year shall be given in a note to the accounts.
  - (2) There shall be stated—
    - (a) the name of the undertaking acquired or, where a group was acquired, the name of the parent undertaking of that group, and
    - (b) whether the acquisition has been accounted for by the acquisition or the merger method of accounting;

and in relation to an acquisition which significantly affects the figures shown in the group accounts, the following further information shall be given.
  - (3) The composition and fair value of the consideration for the acquisition given by the parent company and its subsidiary undertakings shall be stated.
  - (4) The profit or loss of the undertaking or group acquired shall be stated—
    - (a) for the period from the beginning of the financial year of the undertaking or, as the case may be, of the parent undertaking of the group, up to the date of the acquisition, and
    - (b) for the previous financial year of that undertaking or parent undertaking;

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and there shall also be stated the date on which the financial year referred to in paragraph (a) began.

- (5) Where the acquisition method of accounting has been adopted, the book values immediately prior to the acquisition, and the fair values at the date of acquisition, of each class of assets and liabilities of the undertaking or group acquired shall be stated in tabular form, including a statement of the amount of any goodwill or negative consolidation difference arising on the acquisition, together with an explanation of any significant adjustments made.
- (6) Where the merger method of accounting has been adopted, an explanation shall be given of any significant adjustments made in relation to the amounts of the assets and liabilities of the undertaking or group acquired, together with a statement of any resulting adjustment to the consolidated reserves (including the re-statement of opening consolidated reserves).
- (7) In ascertaining for the purposes of sub-paragraph (4), (5) or (6) the profit or loss of a group, the book values and fair values of assets and liabilities of a group or the amount of the assets and liabilities of a group, the set-offs and other adjustments required by this Schedule in the case of group accounts shall be made.
- 14 (1) There shall also be stated in a note to the accounts the cumulative amount of goodwill resulting from acquisitions in that and earlier financial years which has been written off.
- (2) That figure shall be shown net of any goodwill attributable to subsidiary undertakings or businesses disposed of prior to the balance sheet date.
- 15 Where during the financial year there has been a disposal of an undertaking or group which significantly affects the figures shown in the group accounts, there shall be stated in a note to the accounts—
- (a) the name of that undertaking or, as the case may be, of the parent undertaking of that group, and
- (b) the extent to which the profit or loss shown in the group accounts is attributable to profit or loss of that undertaking or group.
- 16 The information required by paragraph 13, 14 or 15 above need not be disclosed with respect to an undertaking which—
- (a) is established under the law of a country outside the United Kingdom, or
- (b) carries on business outside the United Kingdom,
- if in the opinion of the directors of the parent company the disclosure would be seriously prejudicial to the business of that undertaking or to the business of the parent company or any of its subsidiary undertakings and the Secretary of State agrees that the information should not be disclosed.

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