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Critique on the application of USGAAP pronouncements SFAS 109, SFAS 141, ASC 740, ASC 805: a case study in Brazil.

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Resumo/Abstract

This study critically investigates how the US-GAAP pronouncements related to business combinations and deferred income tax have changed substantially over time. The case study was conducted using data that were collected through direct observation from the local controlling team that was involved in the business combination process. The results in the cases of (a) business combination and (b) deferred income tax, it is concluded, respectively: (a) for US-GAAP the accounting acquisition method is used and (b) demonstrates that both SFAS 109 and ASC 740, continues to guide, in a generic and inadequate manner, the procedure for the accounting recognition related to the deferred income tax in a specific business combination case. The research contributes to both practical and academic. Despite being widely used, business combinations and deferred income taxes are not a subject for deep and continued research. Finally, this paper does analyze the effect of business combinations and deferred taxes for IFRS purposes.

Modalidade/Type

Artigo Científico / Scientific Paper

Área Temática/Research Area

Tópicos Especiais de Contabilidade (TEC) / Special Topics in Accounting

PROPOSED TITLE: Critique on the application of USGAAP pronouncements SFAS 109, SFAS 141, ASC 740, and ASC 805: a case study in Brazil.

TÍTULO PROPOSTO: Crítica à aplicação dos pronunciamentos dos US-GAAP SFAS 109, SFAS 141, ASC 740 e ASC 805: um estudo de caso no Brasil.

ABSTRACT

This study critically investigate how the US-GAAP pronouncements related to business combinations and deferred income tax have changed substantially over time. The case study was conducted using data that were collected through direct observation from the local controlling team that was involved in the business combination process. The results in the cases of (a) business combination and (b) deferred income tax, it is concluded, respectively: (a) for US-GAAP the accounting acquisition method is used and (b) demonstrates that both SFAS 109 and ASC 740, continues to guide, in a generic and inadequate manner, the procedure for the accounting recognition related to the deferred income tax in a specific business combination case. The research contributes to both practical and academic. Despite being widely used, business combinations and deferred income taxes are not a subject for deep and continued research. Finally, this paper does analyze the effect of business combinations and deferred taxes for IFRS purposes.

Keywords: 1. Business combinations; 2. deferred income tax; 3. US-GAAP; 4. accounting standard codification (ASC); 5. international accounting.

1. INTRODUCTION:

There is no more dramatic or controversial activity in corporate finance than the acquisition of one company by another, or the merger of two organizations. The acquisition of one company by another is an investment made under conditions of uncertainty. The valuation principle applies: a company must be acquired if it generates positive net present value for the shareholders of the purchasing company. However, as it is very difficult to determine the net present value of an acquisition candidate, and as consequence mergers and acquisitions become an interesting topic (Ross, Westerfield, and Jordan 2013).

The literature defines Business Combinations according to Table 1 below:

Table 1 - Business Combination Definitions

Law 6.404/76	A controlled company is considered to be a company in which the parent company, directly or through other subsidiaries, has the rights of a partner that permanently assures it a preponderance in corporate resolutions and the power to elect the majority of managers (art. 243- §two). Incorporation - operation by which one of the most companies is absorbed by another, which succeeds them in all rights and obligations (art. 227). * Merger - operation by which two or more companies are united to form a new company, which will succeed them in all rights and obligations (art. 228).
CPC 15	Business combination is an operation or other event through which an acquirer obtains control of one or more businesses, regardless of the legal form of the operation. In this Pronouncement, the term also covers mergers that take place between independent parties (including those known as true mergers or merger of equals).
APB 16	Business combination occurs when a corporation in one more incorporated or unincorporated company is brought together in an accounting entity. A single entity records the activities of independent and previously separate companies.

Source: Prepared by the authors

In Brazil, the Law 6.404/76 does not use the term business combination but deals separately with the instruments that compose it. However, with the enactment of the law 11.638/2007, and the Accounting Pronouncements Commission - CPC, through the Accounting Pronouncement No. 15, or CPC 15 - addresses the topic in a detailed manner.

Regarding the acquisition of share control, it occurs when the buyer acquires more than half of the voting shares (Davies 2017).

Internationally, the process for evaluating business combination operations are consolidated in two methods: the pooling of interest method and the accounting purchase method. In the US-

GAAP, the method of pooling of interests was the accounting purchase method for business combinations, and was required in certain circumstances, according to APB 16, but SFAS 141 no longer allows its use. On the other hand, in the accounting purchase method, all business combinations must be accounted for in accordance with SFAS 141. In this method, the assets acquired, and the obligations assumed are recorded at their fair values and the difference between these amounts paid is recorded as goodwill (Ayers, Lefanowicz, and Robinson 2000).

This article aims critically to reveal the aspects of the US-GAAP, in the cases of Business Combination and to verify the impact of the deferred income tax in the financial statements, from the point of view of the US-GAAP practices, arising of a Business Combination process, based on real data.

This article is justified based on the observation of three main facts. The launch of the American Depositary Receipts (ADRs), as a method for trading foreign securities within the North American market; the business combination, as a way for companies to remain competitive in the market; and the effect of deferred income tax, generated by the business combination transaction and its correct recognition in the financial statements, from the point of view of US accounting practices.

ADRs are trading instruments in US dollars, issued in the United States, by a depositary bank, representing ownership of foreign securities, generally known as underlying common shares. ADRs make it possible for US investors to acquire and trade foreign securities, in US dollars, without worrying about different settlement terms and with problems normally associated with foreign markets. They also provide foreign companies with access to North American capital markets, that is, access to the largest domestic investor base in the world (Roevekamp 2019).

The second fact is the business combination, as a way for companies to remain competitive in the market, or even, for some companies, because of their business strategy.

The United States, the country where these operations reached US$ 1.8 billion in 2019 and US$ 1.1 billion in 2020 (potentially related to the global pandemic scenario), therefore these combinations lead the global momentum of mergers and acquisitions, collecting several stories of multinationals that advance in size and market positioning, because of successive transactions of this kind. The wave of consolidations sweeping the world tends to remain strong in Brazil, which registered 1037 mergers and acquisitions in 2019 and 1153 in 2018, where not differently, 2020 year was affected by the global pandemic scenario.

Even having added this important advance, there are still few published works on the international aspects of accounting that involve the Business Combination process.

The work carried out by (El Hajj and Lisboa 2001) aimed to reveal significant aspects of permanent investments in subsidiaries, as well as their main methods of valuation, through a comparative approach that considers the American standards (US-GAAP), International (IFRS) and Brazilian, (CPC) in the case of Business Combination. This work revealed significant aspects of accounting treatment and ways of combining companies, according to international and Brazilian accounting standards. However, the accounting aspects related to temporary investments and investments with shared control (Joint Ventures) were not addressed.

The third, more specific, the fact is justified by the need to demonstrate driven by the organization problem, to identify the effect of deferred income tax, generated by the business combination transaction and its correct recognition in the financial statements from the point of view of the US-GAAP in a case study applied in a North American subsidiary company established in Brazil.

2. LITERATURE REVIEW

2.1.1. Definitions: American Standards – USGAAP

In the US-GAAP, a business combination occurs when two or more companies combine to form a single entity (Gray and Torres 2019).

Business Combination operations are characterized by obtaining control by an investing company over the investee(s). The definition of these operations and subsidiaries is based on the percentage of participation in shares or quotas with voting rights, not including preferred shares without voting rights (Gray and Torres 2019). According to the authors, Business Combination is the union of business entities, which presents itself as an alternative for expansion or development and which often offers advantages for all the combined entities, as well as for their owners.

According to the US-GAAP concept, reflected in paragraph 1 of ABP 16, a Business Combination occurs in the following circumstances: a business combination operation occurs when a company once merged or non-merged has its businesses combined in one only legal entity. This new legal entity created will take all the activities carried out by that company

before the separation, this time as an independent company.

From the definitions presented, this article adopts the expression 'Business Combination' as an economic transaction in which one company obtains control over the other, or when two companies, under different controls, associate (union of companies) to form a third, regardless of the legal formation of how control is obtained, and the resulting form of the remaining company (Gray and Torres 2019).

2.1.2. Methods for accounting recognition:

a) Prior to the issuance of SFAS Statement 141

The first American pronouncement that dealt with business combinations was APB 16 (Nathan and Dunne 1991) and (Nathan 1988). The main difference between the opinion of APB and the pronouncement of SFAS 141 (Anantharaman 2015), (Johnson, Lopez, and Sorensen 2020), (Kwon and Wang 2020) and (Mintchik 2009) is related to the approach used in accounting for business combinations, which were previously accounted for by two methods: the pooling of interests and the purchase method. The rationale of the purchase method is simple: it is the acquisition of one company by the other (Dorata 2009); (Davis 1990); (Dunne 1990); (Mintchik 2009); (Nurnberg, Stickney, and Weil 1975). Both APB 16 and SFAS 141 are not used any longer, being replaced by the ASC 805.

2.1.3. Accounting Pronouncement ASC 805

In July 2009, the FASB introduced the Accounting Standards Codification (ASC). ASC replaced most of the previous US-GAAP standards and made all literature not included in the Codification unofficial. ASC 805, which deals with Business Combinations, has become the definitive guideline on business combinations. It combines the content of SFAS 141, EITF (Emerging Issues Task-Force), SEC (Securities and Exchange Commission) regulations and other official guidelines on business combinations. ASC 805 became effective for business combinations with acquisition dates during financial reporting periods beginning on or after December 15, 2008 (Gray and Torres 2019).

ASC 805 introduces the term “accounting acquisition method” (or “acquisition method”), which refers to the approach used to account for a business combination (Gray and Torres 2019). This term was intended to be broader than the previous term, "purchase method", and to

align with the revised definition of a business combination, which includes any transaction or event in which a buyer obtains control of a business, not just a transaction in which a company is purchased.

The underlying premise of ASC 805 is that when an entity obtains control of a business, it becomes responsible for all of its assets and liabilities and therefore must recognize the assets acquired and liabilities assumed at their fair values on the acquisition date. Consequently, the recognition and measurement of assets acquired, and liabilities assumed must be the same, regardless of whether the acquirer obtains 100% or less of the controlling interest in a business.

Consistent with this premise, ASC 805 has two key principles, known as the "recognition principle" and the "measurement principle". In accordance with the recognition principle, an acquirer must "recognize, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree". Under the measurement principle, the acquirer must then measure "the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired company at their fair values on the acquisition date".

The purpose of the principle is to provide guidance that an acquirer can apply when ASC 805 does not provide specific recognition or measurement guidance for a specific asset or liability.

2.1.4. Push-Down Accounting

An important position is found in (Harris 2015), on the form of accounting recognition referring to Push-Down Accounting. The author points out that APB 16 did not comment on which basis the company purchased should keep its records, raising the following questions:

- should the company keep its records as if nothing has happened?
- or should it adjust its assets and liabilities and recognize goodwill (if any), to equalize the determined amounts, which the parent company uses in its financial statements?

According to the author, the AICPA (Accounting Institute of Certified Public Accountants), as a Task Force, reviewed the matter and recommended that push-down accounting should be accepted when there is a 'substantial change in management', that is, when there is a change of 90% or more of the shareholding composition under the control of the parent company.

In this method, investees recognize, in their financial statements, the effects of operations that were carried out by the investor. An example of this arises from the need for investees to adjust

the valuation of their assets and liabilities when, in a Business Combination, the amount paid for these equity items is different from the book value (Harris 2015).

The application of Push-Down Accounting influences the investee's financial statements, and indicates a predominance of the market value, which constitutes the new valuation basis. The Balance Sheet shows the assets and liabilities at market value and the respective 'valuation adjustment'. In determining the results of the investee, the effects on equity items must be recognized at the time of the realization, since the equity elements will be written off or depreciated based on the market value (Harris 2015).

In November 2014, the FASB issued the ASU (Accounting Standards Updates Issue) 2014-17 (OESTRIECHER and BEASLEY 2020). The updates presented at ASU 2014-17, were documented in the subsections of "Pushdown Accounting" in pronouncement ASC 805-50, now providing public and non-public entities with official guidance on the application of pushdown accounting.

3. DEFERRED INCOME TAX

3.1 US-GAAP (APB 11, SFAS 96, SFAS 109 and ASC 740)

a) A short history about the Income Tax subject

Table 2 show the short history about the Income Tax subject:

Year	Subject	Author (s)
1942	The CAP (Committee on Accounting Procedure) issued APB (Accounting Principle Board) No. 18, which recommended the allocation of income tax between periods with respect to non-amortizable discounts and redemption of premiums when bounds were reimbursed.	(Detzen 2018)
1943	The CAP issued ARB (Accounting Research Bulletin) No. 23, which mentioned the notion of 'temporary differences', and concluded that income tax is an expense that should be allocated only as an expense, except for those allocations that not necessarily be a recurring temporary difference.	(Blaylock, Shevlin, and Wilson 2012)
1945	The SEC issued the ASR (Accounting Research Studies), which questioned the conclusion of ARB 23. The SEC's reaction was the issuance of ARB 43, which remains in favor of allocating between income tax periods.	(Feldman 1959)
1954	The Internal Revenue Service (IRS) allowed the use of the accelerated depreciation	(Feinschreiber

	method, which resulted in the generation of recurring temporary differences for many companies.	1969)
1967	APB issued opinion No. 11, which opted for the deferred income tax allocation method. In fact, it added strength to the debate	(Holtzman and Nagel, 2011
1981	In 1981, the Economic Recovery Act reduced the depreciation period for tax purposes for many assets. The procedure, known as the accelerated cost recovery system (ACRS), made the temporary differences more evident.	(Holtzman and Nagel, 2011)
1982	FASB conducted a study on the problem of allocating taxes between periods, which resulted in the publication of Pronouncement No. 96 in 1987. However, this was in force until 1992, with the implementation of Pronouncement No. 109 in 1992.	(Holtzman and Nagel 2011)
1992	The FASB issued the SFAS 109 - Accounting for Income Tax, which replaced Opinion No. 11 and SFAS No. 96 - Accounting for Income Taxes, of December 1987, also both replaced by the ASC 805.	(Holtzman and Nagel 2011),

Source: Prepared by the authors.

b) The SFAS 109

In February 1992, the FASB issued the pronouncement No. 109 - Accounting for Income Tax, which replaced Opinion No. 11 and pronouncement No. 96 - Accounting for Income Taxes, of December 1987 (Holtzman and Nagel 2011).

SFAS 109 basically deals with the regulations for accounting recognition of income tax that have been applied for more than two decades. With more than 20 different EITF technical opinions, some of these complexities inherent in Opinion No. 11 or even in statement No. 96 were eliminated. On the other hand, they brought other new complexities, in the statement issued by in 1992 by the FASB (Holtzman and Nagel 2011).

c) Basic Objectives and Principles

In general, when a tax is based on revenue, most items that enter the pre-tax accounting income and form part of the taxable income calculation basis in the same year and vice versa. Some events, however, are recognized for accounting and tax purposes in different years. Over time, as these differences are reversed, they eventually compensate. The tax effects of these differences, called deferred taxes, must be accounted for in the interim periods.

Both SFAS 109 and ASC 740-10-10-1 (Carmichael 2020), (Flood 2021) and (Miller, Miller, and Tolin 2016), identify two income tax accounting objectives:

- recognize the amount of taxes to be paid or reimbursed in the current year.
- recognize deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns.

d) *Basic Method*

The FASB opted for the so-called tax allocation asset/liability method between periods based on the idea that it fits better to the conceptual framework, and that the most useful and understandable information is produced (Hendriksen 1999).

The liability method is based on the concept of increment - that is, a deferred income tax liability represents an increase in taxes payable or a decrease in taxes to be offset.

On the other hand, an active income tax represents a decrease in taxes payable or an increase in taxes to be offset in future years, for example, the result of temporary differences and accumulated results existing at the end of the current year (Carmichael 2020), (Flood 2021) and (Miller et al. 2016).

The liability method, in the light of SFAS 109 and ASC 740, is focused on the balance sheet. The application of the liability method, in each situation, involves the accumulation of temporary differences and accumulated results existing at the balance sheet date, and the percentage of the current rate must be applied. The net result generated by the change in the values of deferred tax assets or liabilities represents the amounts of expenses or income with deferred income tax for the current year. The deferred income tax expense or income for the current year includes the effects of changes in current tax legislation or changes in the percentage of fees or even changes in the provisions for reduction of balances or Valuation Allowance (Edwards 2018).

The calculation of the deferred income tax is presented below, using the liability method:

Table 3 - Deferred Income Tax - Liability Calculation Method	
	Final Balance of Deferred Income Tax
Less	Initial Balance of Deferred Income Tax
Equal	Deferred Income Tax Expense or Income
Plus	Income Tax Payable
Equal	Deferred Income Tax Expense or Income booked

Source: Adapted from (PwC 2020)

e) Recognition and Measurement

The paragraphs 16 of SFAS 109 and ASC 740-10-10 refer to Valuation Allowance affirm to achieve the stated objectives, companies must calculate deferred taxes to account for the expected future tax consequences of events that have been recognized in the financial statements or tax returns (Carmichael 2020), (Flood 2021) and (Miller et al. 2016).

The basic model for the recognition and measurement of deferred taxes consists of a five-step approach that achieves three main objectives: (1) identification of all temporary differences, tax losses to be offset and tax credits to be offset; (2) measurement of temporary differences using the applicable tax rate; and (3) assessment of the need for provision for valuation allowance.

The balances of deferred tax assets and liabilities and the corresponding deferred tax expense recognized in the financial statements are determined for each tax paying component in each jurisdiction.

3.2 Tax effects on Basis Differences according to SFAS 109 and ASC 805

The paragraphs 30 of SFAS 109 and ASC 805-740 (Carmichael 2020), (Gray and Torres 2019), (Miller et al. 2016) and (Flood 2021) require the recognition of deferred tax assets or liabilities on differences that have tax impacts between the amounts found in a process of allocating the price paid on the purchase date (Purchase Price Allocation) and the tax bases of assets and liabilities acquired and assumed in a business combination process (except the part of goodwill arising from APB 23).

3.3 Allocations of Differences in Price Paid on the Date of Purchase ("Purchase Price Allocation Differences")

In a business combination, which is the basis for tax purposes, the purchase price is determined for the assets acquired and the liabilities assumed, impacting not only on the tax books, but also on the financial reports for reporting. However, the amounts determined for a specific asset or liability may differ for the purpose of financial reporting and tax bases.

Both SFAS 109 and ASC 740 (Carmichael 2020), (Miller et al. 2016) and (Flood 2021) require that deferred income tax assets or liabilities be recognized on temporary differences. For

example, goodwill that has been accounted for financial reporting purposes can be allocated as other assets.

3.4 ASC 740 - Accounting for Income Taxes

Objectively, the financial statements should reflect the current and deferred tax impacts of all events that have been recognized in the financial statements or in the tax returns (with the only exceptions identified in pronouncement ASC 740, item 10-25-3 (Carmichael 2020), (Miller et al. 2016) and (Flood 2021) which deals with "other differences in tax bases "). Also, to achieve this objective, SFAS 109, §6 and 7 and ASC 740-10 guide the process to recognize the taxes in the financial statements.

As for the concepts, foundations, basic principles and presentation, no changes were found in the accounting pronouncement ASC 740, since the promulgation of the APB 11, SFAS 96 and SFAS 109 standards.

3.5 Criticism of the FASB Basic Method

As stated, the liability method (articulated in paragraph 87 of SFAS 109) is based on the concept of increment - that is, a deferred income tax liability represents an increase in taxes payable or a decrease in taxes to be offset.

However, with the implementation of the ASC 740 standard, two income tax accounting principles are identified (Carmichael 2020), (Miller et al. 2016) and (Flood 2021):

- recognize the estimate of taxes payable or reimbursable in the current year's tax returns as a tax liability or asset; and
- recognize the impact of future tax differences on assets and liabilities according to ASC 740-05-5.

The first principle refers to taxes due / receivable from tax authorities where, until payment / receipt by the company, recording a liability or asset.

The second principle establishes deferred taxes if there is a difference between taxable profit and profit before taxes, when the difference was generated by the moment of recognition of the revenue, deductions or expenses between tax and financial accounting.

These differences are temporary because they are expected to be reversed in the future.

According to ASC 740-10-20 (Carmichael 2020), (Miller et al. 2016) and (Flood 2021), the differences must be due to past actions that will be eliminated, increasing, or reducing future taxes.

However, a criticism of the basic model established by the FASB, by using the liability method, is found in (Acheampong; Valencia and Volkan, 2013), when the authors discuss and state that the allocations of expenses between accounting periods are not reliable.

According to the authors, and based on ASC 740, the asset / liability method records unrealized taxes / deductions (deferred taxes) as realizable and allocates them in future periods. However, these unrealized taxes and deductions (deferred taxes) are essentially an element of the wealth redistribution created by the tax authorities and should not be allocated in future periods, as required by ASC 740.

This approach is flawed for four reasons deferred taxes do not meet the definition of an expense (Acheampong; Valencia and Volkan, 2013):

1. taxes are an element of wealth redistribution, not revenue generation.
2. unrealized future taxes / deductions do not create liabilities / assets because future tax revenues are uncertain.
3. Accounting theory and standards prohibit the anticipation of future revenues.
4. SFAC (Statement of Financial Accounting Concept), No. 6, paragraph 81, makes it clear that current taxes are expenses; but the statement does not include the deferred portion of the current tax provision, as it does not fit the definition of expense (Acheampong; Valencia and Volkan, 2013).

3.6 Business Combination, according to ASC 740

According to ASC 740-10-25-20 (Carmichael 2020), (Miller et al. 2016) and (Flood 2021) a premise inherent in the statement of an entity's financial position prepared under US-GAAP is that the reported amounts of assets and liabilities will be recovered and settled, respectively.

Based on this assumption, a difference between the tax base of an asset or liability and its value reported in the statement of financial position will result in taxable or deductible amounts in future years, when the reported values of assets are recovered and the reported values of liabilities are settled.

Business combinations often give rise to a variety of complex issues for accounting for income

taxes under ASC 740.

In accordance with ASC 805, Business Combination, assets and liabilities acquired are accounted for at fair value. However, the recognition and measurement of deferred taxes arising from assets acquired and liabilities assumed in a business combination are accounted for in accordance with ASC 740, the acquirer must also account for the potential tax effects of temporary differences, offsetting and tax uncertainties. income of an acquiree that exists on the acquisition date or that arise because of the acquisition.

The authors (Carmichael 2020), (Miller et al. 2016) and (Flood 2021) proposes the structure to follow the process that would normally be concluded in the analysis of the income tax implications of a business combination.

4. CASE STUDY AND PRESENTATION OF RESULTS

A real case of a North American organization, with representations in different regions of the world, which acquired, on a global level, another North American group, between the periods of X0 to X4. Given its greatness and peculiarity, the example in question refers to a subsidiary of that company, located in Brazil. This subsidiary recorded some of the impacts of the business combination process in its books in reporting accounting. Following the objective of the article, with the help of a practical example, the impacts resulting from the business combination process of this Brazilian subsidiary and its correct accounting in the financial statements were identified.

For the development of this work, bibliographic and empirical research was used. To carry out the empirical research, it was used the case study method. Notwithstanding, to develop the case study, the exploratory research method was used based on data provided by the intervened company, collected using direct observation from the local group controlling team that was directed involved in the business combination process.

As previously mentioned, in the US-GAAP, a business combination operation can be recognized in the accounts, using the accounting purchase method and the push-down accounting process.

According to (Davis 1990), (Dorata 2009); (El Hajj and Lisboa, 2001); (Mintchik 2009) and (Nurnberg, Stickney, and Weil 1975) the purchase method requires determining the fair value of each identifiable asset - tangible and intangible - and the liability of the acquired company, on the date of the combination.

In this case study, it was analyzed the effect of the business combination process of an existing subsidiary in Brazil, out of the total of numerous separate subsidiaries in different regions in the world.

Given its magnitude, the purchase method was adopted directly by the head office established in the United States. That means, the assets acquired, and liabilities assumed were measured at fair value, except for the items that make up the investor's permanent assets.

For the items that composed the investor's permanent assets, the corporate organization hired a company at a global level that carried out valuation work on all existing subsidiaries, identifying the cost values, book value and market values of each permanent asset on the date of the transaction purchased. However, the result of this work was treated as an exception. The accounting recognition between the differences between the values recorded in the accounting books at book value and the values determined at the time of purchase at fair market value were not recorded in the corporate books, but, in the local accounting books of each existing subsidiary. This exception is called Push-down Accounting, which was discussed before (Harris 2015).

Recapitulating, in this method, the investees recognize in their financial statements the effects of operations that were carried out by the investor. An example is the need for investors to adjust the valuation of their assets and liabilities when, in a business combination process, the amount paid for these equity items is different from their book value. In the real case in question, a North American subsidiary, headquartered in Brazil, went through a business combination process between the years X0 to X4, which, following the US-GAAP guidelines that deal with the combination, had all their permanent assets revalued on the date of that acquisition. According to the pronouncement, it is required that, in a business combination process, all the costs of its permanent assets are revalued at fair market value.

In the specific example, to define the values of permanent assets, as previously mentioned, an outsourced company was hired to carry out the work globally in all existing subsidiaries, identifying the values of its permanent assets, on the date of the purchase transaction. The table below shows a summary of the assets that were recorded in the accounting books of the acquired entities, as well as the same assets revalued at fair market value in that period.

Table 4 - Global Summary of Permanent Assets revalued on 07/30/X4				
In thousands of US Dollars (000)				
	Net Book Value (NBV)	Fair Market Value (FMV)	% of Total	Difference
North America				
US	9.286,5	9.561,3	54%	274,7
Canada	2.991,6	2.279,3	13%	(712,3)
Europe				
Germany	830,8	268,1	2%	(562,7)
Netherlands	930,1	418,4	2%	(511,7)
England	3.950,8	3.246,4	18%	(704,4)
Asia				
Singapore	2.069,4	899,7	5%	(1.169,8)
China	1.023,5	643,5	4%	(380,0)
South America				
Brazil	**1.384,2**	**338,3**	**2%**	**(1.046,0)**
Argentina	2,6	0	0%	(2,6)
Total	**22.469,6**	**17.654,9**	**100%**	**(4.814,7)**

Source: Prepared by the authors

Once the values of permanent assets at the global level were determined, a further work was carried out, which separated the total permanent assets of each region by manufacturing unit or legal entity. The objective was to demonstrate the composition of its costs, as well as the determination of the difference between the amounts found in accounting and the fair market values, on the date of the transaction carried out. As we work here with a single example, the South America region, more specifically Brazil, will be our object for analysis. The table below shows the composition of costs and the differences highlighted by legal entity.

	Table 5 - Summary of Brazil's Permanent Assets by Legal Entity on 07/30/X4					
	In thousands of US Dollars (000)					
Legal Entity	Book Value (cost)	Book Value (NBV)	Reposition cost	Adjusted books	FMV	Difference FMV - NBV
Company A	7.964,0	788,5	727,3	416,5	338,3	(450,4)
Company B	722,5	548,7	728,4	123,8	0	(548,7)
Company C	53,9	44,1	59,6	49,7	0	(44,1)
Company D	19,0	2,9	19,9	3,3	0	(2,9)
Total - Brazil	**8.759,4**	**1.384,2**	**1.535,1**	**593,3**	**338,3**	**(1,046)**

Source: Prepared by the authors

The values of permanent assets were evaluated at the fair market value, and the useful life of each asset reflects the future strategies of the company's business. In the table above, it can be noted that the fair values found are materially different from the values found in the books of accounting. The assets that did not have a determined useful life, that were not part of the company's strategies, or even that were separated.

The purpose of push-down accounting process is to “reflect the effect of saving on a purchase process and allocate the total price of this purchase to each item of assets and liabilities as required by US-GAAP, and the accounting-tax guidelines for each country, as well as its tax legislation” (Harris 2015). Accordingly, the differences found between the values of permanent assets recorded in the books (book value) and the results of these same assets, however revalued at fair market value, must be recognized in the financial statements.

Table 6 - Adjustment to be made in accounting (in US-GAAP) due to differences in NBV (book value) and FMV (market value)			
In thousands of US Dollars (000)			
PP&E	NBV	FMV	"Difference FMV - NBV"
Land	110,7	27,1	(83,7)
Buildings	346,0	84,6	(261,5)
Equipments	415,2	101,5	(313,8)
Furniture and utensils	276,8	67,7	(209,2)
Vehicles	152,3	37,2	(115,0)
Construction in progress	83,0	20,3	(62,8)
Total - Brazil	**1.384,2**	**338,3**	**(1.046,0)**

Source: Prepared by the authors

The application of push-down accounting requires that the accounting recognitions be carried out in the books of the acquired subsidiary. Using Table 5 above, the difference between FMV and NBV, in the amount of $(1,046.0), would be recorded in the accounting books as follows, according to the Table 7:

Table 7 - Journal Entries of Adjustment generated by Push-down Accounting		
Total - Brazil		
In thousands of US Dollars (000)		
Debit	Adjustment of Push-down accounting	$1.046,0
Credit	Land	83,7
Credit	Buildings	261,5
Credit	Equipments	313,8
Credit	Furniture and utensils	209,2
Credit	Vehicles	115,0
Credit	Construction in progress	62,8

Source: Prepared by the authors

In this way, the permanent assets of the acquired subsidiary are adjusted and valued at market value (FMV), which was exactly the amount paid by the buyer. The debit entry carried out as 'push-down accounting adjustments', is a revaluation reserve, however, of an effective business transaction. To disclosure the financial statements, it must be part of the equity balances of the acquired subsidiary.

Table 8 - Position of PP&E after recognition of Push-down Accounting adjustment			
In thousands of US Dollars (000)			
PP&E	NBV	Adjustment de Push-down	FMV
Land	110,7	(83,7)	27,1
Buildings	346,0	(261,5)	84,6
Equipments	415,2	(313,8)	101,5
Furniture and utensils	276,8	(209,2)	67,7
Vehicles	152,3	(115,0)	37,2
Construction in progress	83,0	(62,8)	20,3
Total - Brazil	**1.384,2**	**(1.046,0)**	**338,3**

Source: Prepared by the authors

It is important to note that these push-down adjustments are only applied for the purpose of US-GAAP. The amounts corresponding to the same permanent assets, for the purposes of the Brazilian Accounting Principles (both tax and corporate), did not changed.

With this statement, and once adjusted the permanent assets in the books of the subsidiary, only

in dollars, the tax effects that were generated between the differences in bases should be analyzed (Brazilian GAAP versus US-GAAP). That is, on the date of the purchase, the fair value balances, expressed in US dollars and existing on the date of purchase, are substantially different from the same dollars corresponding to the book value, for the purposes of Brazilian corporate and tax accounting.

The table below shows:

- the amounts of permanent assets, in US dollars, corresponding to the fair market value, after the US-GAAP recorded in the subsidiary, on the date of the transaction and
- the differences in both tax and accounting ledgers, which will be the basis for the recognition of deferred tax assets or liabilities in the financial statements.

Table 9 - Composition of PP&E (BR-GAAP and US-GAAP) on 07/30/X4

In thousands of US Dollars (000)

PP&E	BR-GAAP	US-GAAP	Difference FMV - NBV
Land	110,7	27,1	(83,7)
Buildings	346,0	84,6	(261,5)
Equipments	415,2	101,5	(313,8)
Furniture and utensils	276,8	67,7	(209,2)
Vehicles	152,3	37,2	(115,0)
Construction in progress	83,0	20,3	(62,8)
Total - Brazil	**1.384,2**	**338,3**	**(1.046,0)**

Source: Prepared by the authors

Based on the data in the table above, the accounting pronouncements SFAS 109, ASC 740 (Income Taxes), SFAS 141 and ASC 805 (Business Combination) require the recognition of an either deferred assets or liability income tax, on differences that have tax impacts between the amounts found in a Price Allocation Process on the purchase date and the tax bases of assets and liabilities acquired and assumed in a business combination process.

This is what is analyzed in table 10 below:

Table 10 - Deferred asset or liability income tax generated from differences in the basis of a Business Combination process	
In thousands of US Dollars (000)	
	$
PP&E Balance - BR-GAAP	1.384,2
PP&E New Balance - US-GAAP	338,3
Basic differences (BR-GAAP vs US-GAAP)	1.046,0
Income tax rate	30,0%
Deferred income tax assets (liabilities)	313,8

Source: Prepared by the authors

The pronouncements are elucidative for those companies that have gone through or will still go through a business combination process. On the other hand, it does not provide guidance on the accounting recognition of deferred tax assets or liabilities, generated from differences in the basis of a business combination process.

In fact, it is not found in the standards, books or even articles that specifically deal with accounting recognition to be used in dealing with the referred FASB pronouncements.

On the other hand, in technical material prepared, the consulting and auditing company (PwC 2020), comment that questions were raised about the immediate recognition in the income statement of the tax benefits related to the costs incurred in a combination process of business being recognized as deductible expenses for tax purposes, but forming part of the cost composition of the purchase process for the purposes of the Financial Statements and reporting.

It is the understanding of this auditing and consulting company that the tax benefits related to the costs of the purchase or allocation of the purchase price should be recognized in the financial statements as a component of the acquisition (example; included in the purchase price made) instead of having its recognition in the profit & loss (P&L) statements (PwC 2020).

Based on this premise, the correct recognition of deferred income tax, resulting from a business combination process, is shown in the table below:

Table 11 - Deferred tax asset entry resulting from a Business Combination process		
In thousands of US Dollars (000)		
		$
Debit	Deferred Income Tax Asset	313,8
Credit	Adjustment of Push-down Accounting (balance sheet)	313,8

Source: Prepared by the authors

This real case was used to illustrate the impacts of a business combination process, as well as the impacts of deferred tax assets and liabilities, according to accounting pronouncements SFAS 109 and ASC 740 and their correct accounting recognition in the financial statements. It also served to demonstrate that a misapplication of push-down accounting can have future implications for the financial statements, whether in the parent company or in the acquired subsidiary.

(El Hajj and Lisboa 2001) shows a wrong case in the application of push-down accounting, exemplifying what happened to 'Cia Vale do Rio Doce' in Brazil, in the 1st semester of 1997, in which the Federal government, controlling shareholder of the company, sold part of the shares to employees, for an amount less than the market value. The author comments that this negative differential had to be recognized by the parent company, as it was mistakenly considered that there was a form of remuneration for its employees. The scholar concludes by saying that this item, however, has been recognized as an extraordinary item, with SEC approval.

5. FINAL CONSIDERATIONS AND RECOMMENDATIONS

The business combination process, in a globalized market, has for some time become a key strategy for those companies that wish to guarantee their sustainability for the future.

According to Exame periodic, the mergers and acquisitions market was agitated in 2019. Consolidation operations created giant beauty companies and shopping centers, such as the merger of Avon and Natura and the merger of Aliansce and Sonae Sierra Brasil. In 2019, business involving mergers and acquisitions of companies surpassed the record above $3.0 trillion registered. There were 1,231 operations completed, the highest number since 1999, beginning of the historical series of the survey carried out by the audit and consulting company KPMG. However, allied to this historic brand, challenges remain.

In the introductory part of this article, two specific objectives were placed:

1. Theoretical Objective: to reveal aspects of US-GAAP, in the case of Business Combination and

2. Practical Objective: to verify the impact of deferred income tax on the financial statements, from the point of view of the US-GAAP, resulting from a business Combination process, based on real data.

Not excluding its predictive value, it was also stated that the comparative approach of the US-GAAP and the Brazilian and the International Standards, in the cases of business combination, was not an objective, since these approaches would require more specific studies.

Regarding the theoretical objective, the various accounting standards, opinions and technical opinions regarding the business combination process were exhaustive discussed in detail.

In this sense, it was concluded that there is one method of evaluating business combinations only: the accounting purchase (Gray and Torres 2019).

In the accounting purchase method, all business combinations must be accounted for in accordance with the pronouncement of FAS 141 and ASC 805. In this method, assets acquired, and liabilities assumed are recorded at their fair market values, and the difference between these amounts is recorded in the financial statements as goodwill.

The main finding is there are several restrictions on the bibliographies available for a correct understanding of the practices applied in that country.

Regarding the practical objective, it was found that the corporate organization hired a company at a global level, which carried out a valuation work on all existing subsidiaries, identifying the cost values - book value and the market values of each permanent asset on the date of purchase transacted. However, the result of this work was treated as an exception called push-down accounting (Harris 2015).

In the same line of reasoning, however, in Brazil, when the revaluation occurs in invested, controlled, affiliated or similar companies, the investor will recognize in its equity, by equity method, the net effects generated in its investment. The investor will recognize the effects of the revaluation of the investee, in the account representing this investment, recording at the revalued amount, proportional to the investment, with a corresponding entry to the specific account, called the revaluation reserve in subsidiaries and affiliates, in shareholders' equity. This

process is called Reserve of Reflex Reassessment (Soute et al. 2006).

It is concluded that the example of push-down accounting used, the company follows the models and methodology presented in the Pronouncements of FAS 109 and ASC 740 - Accounting for Income Tax - and are sufficient explanatory for a correct application and disclosure in the financial statements.

The accounting recognition between the differences between the values recorded in the accounting books at book value and the values determined at the time of purchase at fair market value, it is noted that they were not recorded in the parent company books, but rather, in the accounting books of each existing subsidiary.

However, the most pronounced constraint observed is that both FASB Pronouncements SFAS 109 and ASC 740 are not clear as to the direction that should be taken regarding the accounting recognition for deferred income tax assets or liabilities, generated in a business combination process.

In fact, there is a regulatory omission on the part of the FASB regarding the accounting procedure for these taxes generated in a specific case of business combination of a company, becoming inappropriate in a specific situation.

As a result of this work, it is expected that other standards, like audits, technical support materials or even case studies are prepared and disseminated, contributing to the fact that events are not recorded inappropriately in the accounting records of companies, as in the case 'Cia Vale do Rio Doce' in Brazil, in 1997.

Finally, even though the comparative approach to accounting standards and practices is not part of the objective of this article, it is worth mentioning that Brazil has already been using the IFRS standards since 2007. However, the standardization gap between the US-GAAP and IFRS is far away from equalization.

Therefore, it is expected that, regardless of the moment in which this standardization occurs, once companies can incorporate more of this advance, that it comes in a structured and consistent way, so that complex subjects, widely discussed, such as business combination, deferred income Taxes, as well as the adjustments for equalization to accounting standards or procedures, present information that is easy to understand and interpret for the user of Accounting Sciences.

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AUTHOR’S CONTRIBUTION: The contributions of the first author were the data collection, data treatment, structuring of data analysis and drafting of the text. The second author contributed to the work through the quality review about the drafting of the text, proving guidance and conducting research.

CONFLICTS OF INTEREST: The authors declare that there is no conflict of interest regarding the content of this work.