ACCOUNTING INFORMATION & OPERATIONAL EXCELLENCE

CASES TOPIC 2

Case 1: Conso PCSA 100

The Parent Company PC acquired 100% of Subsidiary SA shares for 160. At the date of acquisition, 31 December N-1, the two individual balance sheets are as follows:

PC

ASSETS		EQUITY AND LIABILITIES	
Equipment	240	Capital	300
Investment in SA	160	Net Income	20
		Liabilities	80
Total	**400**	**Total**	**400**

SA

ASSETS		E & L	
Equipment	200	Capital	100
		Net Income	60
		Liabilities	40
Total	**200**	**Total**	**200**

(1) Prepare the consolidated balance sheet at the date of acquisition.

On 31 December N, the two balance sheets are as follows:

PC

ASSETS		E & L	
Equipment	360	Capital	300
Investment in SA	160	Net Income	80
Cash	80	Liabilities	220
Total	**600**	**Total**	**600**

SA

ASSETS		E & L	
Equipment	210	Capital	100
		Retained earnings	60
Inventory	80	Net Income	120
Cash	40	Liabilities	50
Total	**330**	**Total**	**330**

(2) Prepare the consolidated balance sheet as of 31 December N.

Case 2: Conso PCSA 100 with FV-BV difference (not mandatory)

The Parent Company PC acquired 100% of Subsidiary SA shares for 250. One reason the parent agreed to pay more than the book value for the subsidiary is because the fair value of property, plant & equipment (PP&E) of SA was estimated at 250 at the date of acquisition. On the date of acquisition, the parent and subsidiary report the following balance sheets:

PC

ASSETS		EQUITY AND LIABILITIES	
PP&E	1,150	Common Stock	800
Investment in SA	250	Additional Paid-in Capital	600
Inventory	300	Retained Earnings	350
Receivables	250		
Cash	150	Current Liabilities	130
		Long-Term Debt	220
Total	**2,100**	**Total**	**2,100**

SA

ASSETS		E & L	
PP&E	200	Common Stock	50
Inventory	200	Additional Paid-in Capital	60
Receivables	100	Retained Earnings	90
Cash	50		
		Current Liabilities	110
		Long-Term Debt	240
Total	**550**	**Total**	**550**

(1) Prepare the consolidated balance sheet at the date of acquisition.

ASSETS		EQUITY AND LIABILITIES	
Total		**Total**	

Case 3: Conso GW 100

On 31 December N-1, PC acquired 100% of Subsidiary SA shares for 450. At the date of acquisition, the following individual balance sheets are given:

PC

ASSETS		E & L	
Equipment	240	Capital	300
Investment in SA	450	Net Income	20
		Liabilities	370
Total	690	Total	690

SA

ASSETS		E & L	
Equipment	200	Capital	100
		Net Income	60
		Liabilities	40
Total	200	Total	200

Additional information regarding SA: SA has developed a brand name whose fair value is estimated at 260 on 31 December N-1.

(1) Prepare the consolidated balance sheet at the date of acquisition.

Purchase price allocation

On 31 December N, the two balance sheets are as follows:

PC

ASSETS		E & L	
Equipment	360	Capital	300
Investment in SA	450	Net Income	80
Cash	80	Liabilities	510
Total	**890**	**Total**	**890**

SA

ASSETS		E & L	
Equipment	210	Capital	100
Inventory	80	Retained earnings	60
Cash	40	Net income	120
		Liabilities	50
Total	**330**	**Total**	**330**

(2) Prepare the consolidated balance sheet as of 31 December N.

Case 4: Conso GW 100 with FV-BV differences (not mandatory)

Assume that a parent purchases all of the outstanding common stock of a subsidiary for a cash purchase price of 1,950. The parent agreed to pay more than book value for its subsidiary because it values a brand name that the subsidiary owns (but is not reported on the subsidiary's balance sheet) at 300, and PPE assets have a fair value that is 500 in excess of their book value. Any additional value is related to corporate synergies that the parent expects will add value to the consolidated entity. On the date of acquisition, the parent and the subsidiary report the following balance sheets:

PC

ASSETS		EQUITY AND LIABILITIES	
Cash	429	Common Stock	818
Receivables	640	Additional Paid-in Capital	607
Inventory	970	Retained Earnings	2,512
PP&E	4,666		
Investment in SA	1,950	Current Liabilities	718
		Long-Term Debt	4,000
Total	**8,655**	**Total**	**8,655**

SA

ASSETS		E & L	
Cash	226	Common Stock	100
Receivables	348	Additional Paid-in Capital	125
Inventory	447	Retained Earnings	775
PP&E	827		
		Current Liabilities	348
		Long-Term Debt	500
Total	**1,848**	**Total**	**1,848**

(1) Prepare the consolidated balance sheet at the date of acquisition.

Purchase price allocation


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Case 5: Conso NCI 20 – Balance Sheet

The Parent Company PC acquired 80% of Subsidiary SA shares for 160. At the date of acquisition, 31 December N-1, the two individual balance sheets are as follows:

PC

ASSETS		E & L	
Equipment	240	Capital	300
Investment in SA	160	Net Income	20
		Liabilities	80
Total	**400**	**Total**	**400**

SA

ASSETS		E & L	
Equipment	230	Capital	140
		Net Income	60
		Liabilities	30
Total	**230**	**Total**	**230**

(1) Prepare the consolidated balance sheet at the date of acquisition.

On 31 December N+1 (2 years later), the two balance sheets are as follows:

PC

ASSETS		E & L	
Equipment	480	Capital	300
Investment in SA	160	Retained Earnings	50
Cash	110	Net Income	110
		Liabilities	290
Total	**750**	**Total**	**750**

SA

ASSETS		E & L	
Equipment	390	Capital	140
Inventory	70	Retained Earnings	190
Accounts Receivables	60	Net Income	150
Cash	140	Liabilities	180
Total	**660**	**Total**	**660**

(2) Prepare the consolidated balance sheet as of 31 December N+1.

Case 6: Conso NCI 30 – Income Statement (not mandatory)

The Parent Company PC purchased a 70% interest in Subsidiary SA five years ago at book value. Each company reports the following income statement for the current year:

Income Statement		
EUR	PC	SA
Sales	7,800,000	1,250,000
Cost of goods sold	(5,900,000)	(675,000)
Gross Profit	1,900,000	575,000
Operating expenses	(1,650,000)	(280,000)
Net income	250,000	295,000

Prepare the consolidated income statement for the current year assuming there were no intra-group transactions.

Case 7: Equity Method

The Parent Company PC acquired 25% of Company AC shares for 40. PC has a significant influence on AC. At the date of acquisition, April 1, year N, the balance sheets of the two companies are as follows:

PC

ASSETS		E & L	
Equipment	360	Capital	300
Investment in AC	40	Net Income	20
		Liabilities	80
Total	**400**	**Total**	**400**

AC

ASSETS		E & L	
Equipment	200	Capital	100
		Net Income	60
		Liabilities	40
Total	**200**	**Total**	**200**

a) Prepare the consolidated balance sheet at the date of acquisition.

As of December 31, year N+1, the two balance sheets are as follows:

PC

ASSETS		E & L	
Equipment	480	Capital	300
Investment in AC	40	Retained Earnings	60
Cash	230	Net Income	100
		Liabilities	290
Total	**750**	**Total**	**750**

AC

ASSETS		E & L	
Equipment	350	Capital	100
Inventory	70	Retained Earnings	180
Accounts Receivables	60	Net Income	150
Cash	140	Liabilities	190
Total	**620**	**Total**	**620**

b) Prepare the consolidated balance sheet as of December 31, year N+1.

c) What would change in a) and b) if the Parent Company PC acquired 25% of Company AC shares not for 40, but for 45?

Case 8: Equity Method 2 (not mandatory)

The Parent Company PC acquired 40% of Company A for 100. PC has a significant influence on AC. At the date of acquisition, April 1, year N, the balance sheets of the two companies are as follows:

PC

ASSETS		E & L	
Equipment	360	Capital	270
Investment in A	100	Net Income	70
		Liabilities	120
Total	**460**	**Total**	**460**

A

ASSETS		E & L	
Equipment	340	Capital	130
		Retained Earnings	40
		Net Income	80
		Liabilities	90
Total	**340**	**Total**	**340**

a) Prepare the consolidated balance sheet at the date of acquisition.

As of December 31, year N+1, the two balance sheets are as follows:

PC

ASSETS		E & L	
Equipment	500	Capital	270
Investment in A	100	Retained Earnings	50
Cash	150	Net Income	140
		Liabilities	290
Total	**750**	**Total**	**750**

A

ASSETS		E & L	
Equipment	360	Capital	130
Inventory	80	Other Comprehensive Income	70
Accounts Receivables	80	Retained Earnings	200
Cash	150	Net Income	110
		Liabilities	160
Total	**670**	**Total**	**670**

b) Prepare the consolidated balance sheet as of December 31, year N+1.

c) What would change in a) and b) if the Parent Company PC acquired 40% of Company AC shares not for 100, but for 160?

Case 9: Real Consolidated Financial Statements (not mandatory)

Search on the internet the consolidated financial statements for the year ended December 31, 2021 of a company you are interested in and find the items specific to consolidated financial statements compared to individual financial statements:

- In the consolidated statement of financial position (balance sheet)
- In the consolidated income statement (but not in the comprehensive income statement).

Are these elements significant (compute ratios in order to support your answer)?