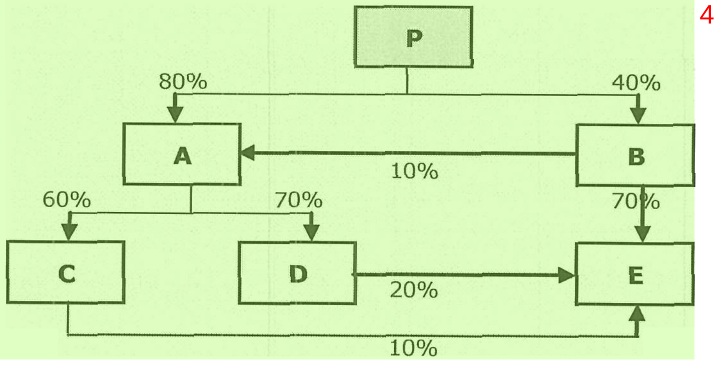
3 QUIZZ 3 (+++)

Question 3.01

In this group, the percentages represent both financial and voting rights.



Company A has signed a shareholders agreement with the owner of the 40% shares in C, giving to him the control on that company.

With which indirect financial percentage and indirect control percentage will company E be consolidated?

a		44.8%	70%
b		28%	70%
c		44.8%	20%
d		28%	20%

Question 3.02

Parent company P decides to sell its 80% participation owned in company A.

The book value in P statutory accounts of these shares is 3000 and, in consolidation, there is still a goodwill whose net value is 300.

The last year total equity of company A was 4000. However, the transaction occurs in July this year when the profit of A is 400.

a		3,200
b		3,700
c		3,720
d		4,020

At which price should these shares be sold to show a gain of 200 in the consolidated accounts?

Question 3.03 1

This group consolidates two companies A and B with the equity method. 2

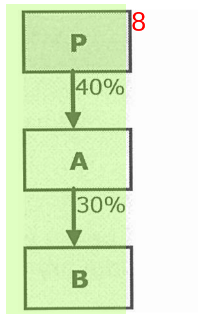
We give you also a simplified balance sheet for each company and we will suppose they have been founded by the group a few years ago. 3

There is so no goodwill or badwill to calculate. 4

P				5
Fin. Inv./A	1,500	Capital	5,000	
		Reserves	3,000	
		Result	500	
Other assets	11,500	Other liabilities	4,500	

A				6
Fin. Inv./B	500	Capital	3,000	
		Reserves	1,000	
		Result	400	
Other assets	7,500	Other liabilities	3,600	

B				7
		Capital	1,000	
		Reserves		
		Result	200	
Other assets	5,000	Other liabilities	3,000	



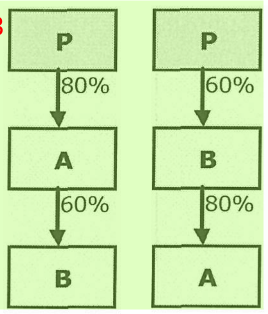
What is the value of the "Financial investments at equity value" account in the consolidated balance sheet? 9

a		2,000	10
b		1,616	
c		2,560	
d		1,800	

Question 3.04

This group is restructuring in the following way

Year 1 Year 2



- All transactions occur on January 1st, Year 2
- A sells to P its 60% shares in B
- P sells to B its 80% shares in A
- These disposals of shares are done at the book value, generating no gain or loss.

Here below we give some balance sheet accounts as at December 31, Year 1 and January 1st, Year 2 just after the group transactions.

Year 1 — **Year 2**

Year 1:

P			
Fin. Inv./A	2,000		

A			
Fin. Inv./B	800	Equity	2,000

B			
		Equity	1,000

Year 2:

P			
Fin. Inv./B	800		

B			
Fin. Inv./A	2,000	Equity	1,000

A			
		Equity	2,000

What is the impact of these transactions on the consolidated reserves of A and B between the situation "before" and the situation "after".

This impact will be given as the variation amount of consolidated reserves as "Year 2 – Year 1".

a		120
b		(120)
c		0
d		(440)

Question 3.05

During Year 1, a company A was consolidated with the equity method.

On January 1st, Year 2, the group acquires 40% additional shares of A for a price of 500. In consolidation, this transaction gives a goodwill of 100.

Since this date, company A is consolidated with the global integration method.

Which of the four following proposals is the correct one?

a		All assets and liabilities of Year 1 closing amounts will appear in the cash flow statement because of the change in the consolidation method
b		A goodwill of (100) appears in the consolidated cash flow statement
c		An investment of (400) appears in the consolidated cash flow statement
d		An investment of (500) appears in the consolidated cash flow statement

Question 3.06

Company A is consolidated with the proportional method at 50%.

The book value of the financial investment in the parent company P is 1800.

P decides to deconsolidate A on the basis of the following statutory equity of A

Capital	2,000
Reserves	1,000
Result	(300)
	2,700

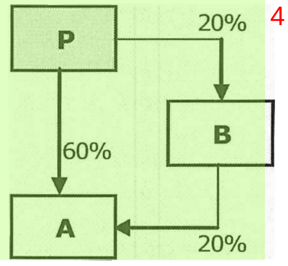
and wants to show now the 1800 book value as a financial investment in a not consolidated company.

What will be the impact of this transaction on the consolidated result?

a		Debit 450
b		Credit 450
c		Debit 1350
d		Credit 1350

Question 3.07

In this group, company A is consolidated with the global integration method and company B with the equity method.



We also give a simplified balance sheet for each of these three companies.

P			
Fin. Inv./A	1,800	Capital	5,000
Fin. Inv./B	800	Reserves	3,000
		Result	1,000
Other assets	11,400	Other liabilities	5,000

A			
		Capital	3,000
		Reserves	2,000
		Result	500
Other assets	10,000	Other liabilities	4,500

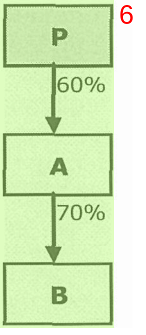
B			
Fin. Inv./A	600	Capital	2,000
		Reserves	1,000
		Result	200
Other assets	6,400	Other liabilities	3,800

Among the four following proposals, which one is showing correct amounts for "Financial investments at equity value" and for "Minority interests"?

		Fin.inv. at equity value	Minority interests
a		640	1,980
b		640	2,200
c		520	1,980
d		520	2,200

Question 3.08 1

Parent company P owns a subgroup of two companies A and B. 2



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P decides to sell this subgroup in one single transaction to 3rd Parties. 3

This transaction will be evaluated on the basis of the following simplified balance sheet accounts. They include goodwill adjustments indicated in bold characters. 4

Company B balance sheet has been already translated into consolidation currency, showing translation adjustments of (400). 5

P			
Goodwill/A	***500***	Capital	5,000
Fin. Inv./A	3,000	Reserves	3,000
	(500)	Result	1,000
Other assets	12,000	Other liabilities	6,000

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A			
Goodwill/B	***100***	Capital	3,000
Fin. Inv./B	1,500	Reserves	2,000
	(100)	Result	1,000
Other assets	9,500	Other liabilities	5,000

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B			
		Capital	2,000
		Reserves	500
		Result	100
		Trans. Adj.	(400)
Other assets	6,000	Other liabilities	3,800

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At which price this subgroup should be sold in order to show a net gain of 300 in the consolidated P&L? 10

a		4,592
b		4,652
c		4,485
d		4,424

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Question 3.09

Company A has been consolidated by the global integration method at 80% until end of Year 1.

Beginning Year 2, the group sells 20% of shares of that company

Here is the evolution of the consolidated reserves report, partially completed.

	Reserves Year 1	Result Year 2	Dividends paid	Dividends received	Transfers of reserves	Appropriation	Reserves Year 2
...							
A	*200*	**40**	*(20)*		?		
...							

What would be the amount to write in the "Transfers of reserves" column at the place of the "?" to take this transaction into account?

a		(45)
b		(60)
c		(40)
d		0

Question 3.10

Parent company P owns 40% of shares of company A.

Here are the simplified statutory balance sheets of these two companies at the end of Year 1.

P			
Fin. Inv./A	1,000	Equity	3,000
Cash	4,000	Debts	2,000

A			
		Equity	2,000
Cash	4,000	Debts	2,000

At which price (paid in cash) should company P acquire 30% of additional shares in company A in order to obtain the ration "Debts / Consolidated equity" equals to 2, just after the transaction?

Notice the following points

- Consolidated equity includes Minority interests
- There is no existing goodwill attached to the first 40% of shares
- When considering the above ratio, Bankers are always reducing the equity by consolidation goodwills.

a		That transaction is not possible
b		1,400
c		2,000
d		750

4 CORRECT ANSWERS: SUMMARY

QUIZZ 1 (+)	
1.01	c
1.02	b
1.03	b
1.04	c
1.05	a
1.06	d
1.07	b
1.08	c
1.09	b
1.10	c

QUIZZ 2 (++)	
2.01	d
2.02	c
2.03	a
2.04	a
2.05	b
2.06	d
2.07	c
2.08	d
2.09	b
2.10	d

QUIZZ 3 (+++)	
3.01	c
3.02	d
3.03	d
3.04	a
3.05	d
3.06	b
3.07	c
3.08	b
3.09	a
3.10	c

5 CORRECT ANSWERS: QUIZZ 1

Answer 1.01

Number of voting rights owned is 1800 = 800 * 1 + 200 * 0 + 500 * 2.
Number of voting rights issued is 3000 = 1000 * 1 + 1000 * 0 + 1000 * 2.
The control percentage is 60% = 1800 / 3000 with a global integration method.

Answer 1.02

The indirect financial percentage is 21.6% = 60% * 60% * 60% and parent company P is controlling indirectly company C at 60%, giving the global integration method.

Answer 1.03

	In CUR	At closing rate	Historical rate	Average rate	Adjustment	
Capital	1000	1500	1300		(200)	Debit
Retained earnings	600	900	840		(60)	Debit
Profit	100	150		160	10	Credit
Translation adjustments					250	Credit

Answer 1.04

Opening value	100	0.5	50
Acquisitions	30	0.6	18
Disposals	(10)	0.6	(6)
Translation adjustments			22
Closing value	120	0.7	84

Answer 1.05

Company	Consolidation method	Financial %	Closing value	Consolidated value
P	Parent company		2,000	2,000
A	Global integration	80%	1,000	1,000
B	Proportional integration	50%	600	300
C	Equity method	30%	800	0
				3,300