NEW YORK UNIVERSITY

Stern School of Business

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| **Acquisitions, Other Restructurings and Related Topics** | | | | |  | **Spring 2016** |
| Prof. John Bildersee |  | |  | jbilders@stern.nyu.edu | | |
| Tel. 212-998-0027 | | 10-79 KMC | Class web site & office hours: NYU Classes | | | |

***Text*:** Advanced Accounting (**Custom Text** from 12th Edition – Hoyle, Schaefer & Doupnik)

**Additional materials**: Additional text, notes, slides and spreadsheets are distributed in class

**Mini case materials**: Primarily from annual reports and SEC filings

***Course Content and Objectives:*** This course concentrates on events causing material discontinuities in financial statements thereby complicating analyses and projections. These include mergers and acquisitions, the development of consolidated financial statements, related analytical issues such as taxes and selected reorganization issues such as spinoffs, splitoffs, IPOs, LBOs and Fresh Starts. It also covers accounting for companies that operate in multiple currencies and selected financial instruments.

There are two primary goals for the course. One goal is understandingand interpreting the equity method for investments and the acquisition method for business combinations and the impact of business restructurings including international business. The second goal is discussion of **several mini cases** highlighting selected issues affecting firms as they combine, restructure or deal with measurement issues.

***Warning:* The topics are detailed, building on materials presented earlier in the semester. Difficulties faced early in the semester should be dealt with promptly.**

Some representative questions for discussion include:

How are acquisitions, LBOs and Fresh Starts related?

What are some analysis problems associated with consolidated statements?

How can management ‘manipulate’ consolidated statements?

Can the acquirer and the acquired both show gains in a partial acquisition?

How does increasing an already majority ownership affect financial reporting?

What is the impact of a bidding war on shareholders, leverage, goodwill and the future?

Are internal profits relevant to the analysis of the entire firm?

Can a subsidiary report a profit and the parent suffer a loss on its investment in the subsidiary (or vice versa)?

Can the parent and the noncontrolling interest have different rates of return on the same investment?

Does a company have 100%control of all the assets on its consolidated statements?

Can a company avoid consolidation even if it owns a majority of a company?

Can a company be required to consolidate even if it has a minority position in a company?

How do consolidations impact reported cash flows?

What are the restrictions keeping companies from using fully consolidated tax statements?

Can one company have a gain and another a loss (and a third have no gain or loss) from the same currency movements?

How does a firm hedge future transactions in foreign currencies?

***Selected companies and mini cases that may be discussed during the semester as time permits:***

Biovail-Valeant – Who controls who?

GSK & Novartis – Trading assets

Wachovia & Golden West – Rationale (Valuation) for a merger

Morgan Stanley & Citigroup – Valuation of Smith Barney

Verizon and Vodafone – End of a joint venture

Sears Holding – Spinoff

CenturyLink & Qwest – Merger (Negative Equity)

Pfizer & Allergan – Tax inversion?

Hostess & GM - Bankruptcies

Google & Motorola – Goal of an acquisition

Walmart-Massmart **–** Transnational partial acquisition

Henderson Inc. – Intra-entity transactions (transfer pricing)

Microsoft – Impairment

Facebook/Trulia/Twitter – IPO

T-Mobile – IPO or Acquisition or Equity Carveout

Coca Cola – Reporting and Foreign Exchange

Coca Cola, GE – Hedging policies

**Are you familiar with the following topics?**  These are covered with varying degrees of depth.

|  |  |  |  |
| --- | --- | --- | --- |
| Topic | |  | |
| Minority investments | | Trading securities | |
|  | | Available for sale securities | |
|  | | Equity method – minority investments | |
| Mergers | | 100% acquisition | |
|  | | Partial acquisition | |
|  | | Disappearance of acquired firm | |
|  | | Acquired firm survives | |
|  | | Purchase method | |
|  | | Pooling method | |
|  | | Acquisition method | |
|  | | Fair values (assets & firm) | |
|  | | Valuation of intangibles | |
|  | | Goodwill | |
|  | | In process R & D | |
|  | | Reporting units (not segments) | |
|  | | Impairment testing | |
|  | | Pushdown accounting | |
|  | | IFRS differences | |
| Consolidations | | Consolidation process | |
|  | | Investment in subsidiary | |
|  | | Consolidation (elimination) entries | |
|  | | Noncontrolling interest | |
| After acquisition | | Income statement | |
|  | | Equity method | |
|  | | Cost method | |
|  | | Cash flow | |
|  | |  | |
| Topic | |  | |
| Taxes | | Affiliated groups | |
|  | | Consolidation requirements | |
|  | | Intangibles and foreign operations | |
|  | | Taxation of internal flows | |
| Intra-Entity events | | Intra-Entity sales | |
|  | | Intra-Entity asset transfers | |
|  | | Transfer pricing | |
|  | | Impact on profit allocation | |
| Restructurings | | Leveraged buyouts | |
|  | | IPOs | |
|  | | Spinoffs & Splitoffs | |
|  | | Liquidation & Fresh starts | |
|  | | Segment reporting | |
| Foreign currency reporting | | Exchange rates | |
|  | | Comprehensive income | |
|  | | Conversions -translation | |
|  | | Conversions-remeasurement | |
|  | | Consolidation of foreign operations | |
|  | | Comprehensive income | |
| Foreign currency events | | Spot activity | |
|  | | Hedging | |
|  | | Fair Value hedges | |
|  | | Cash flow hedges | |
|  | | Firm commitments | |
|  | | Forecasted events | |
|  | | Hedge effectiveness | |
|  | | Options | |

(You should be familiar with accounting for available for sale and trading securities when we speak of foreign operations. Materials will be on NYU Classes.)

***Course requirements:***

***Options:*** There are **two grading paths.** Each requires exams and written hand-ins. The first path includes short write-ups of six mini cases described below. The second path includes short write-ups of three mini cases and a written paper described below.

***Exams:***There are three exams. All exams are open book, open note, objective exams. There are **no make-up exams**. If you cannot take an exam at the scheduled time you are expected to take it **early**. The exams will be given on the stated dates. The topics may change if the course falls behind schedule.

***Mini Cases:***Most mini cases reflect current events and offer an opportunity for classroom discussion.Mini cases will NOT be part of course exams. A **short** (½ - 1 page) **TYPED** writeup is **required for mini cases listed in bold print**. One paragraph should describe the issues and considerations associated with the mini case. A second and/or a third paragraph should include your opinions about the issues. There are multiple grading options with respect to the mini cases. See the grade guide below.

***Paper:*** This is associated with the second grading option and is an ‘experiential’ paper. The basic requirement is a review of recent structural changes of several competing companies. A more complete write-up is included below. The industry in the paper must be okayed and there is only one person per industry. Alternate topics reflecting course materials are acceptable

***Attendance****:* Attendance, completion of the mini cases and a review of the suggested exercises are important. You should **attend every class** to assure a good understanding of the materials. 80% attendance is the minimum acceptable attendance rate to pass the course.

***Classroom performance:*****You are expected to be able to contribute to discussions about the exercises as well as other classroom discussions.** Read the text and review the classroom exercises before class. Positive contributions include questions and well-intended responses irrespective of their accuracy and are worth extra credit.

***Suggested homework:***The assignments review some primary topics in each chapter and may help you prepare for exams. Do not spend too much time on any question. Instead, try to work the exercise in your own way and, if you are stuck, review the posted answer that is on NYU Classes and/or ask related questions in class.

***Support materials:***Visit NYU Classes early and often. It has announcements, class notes, slide shows, spreadsheets, sample exams, class videos and miscellaneous items. Many of the relevant materials will be provided as handouts.

**You are expected to follow the graduate honor code and the undergraduate code of conduct throughout the semester. We follow Stern’s default policies for anything not covered here.**

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| *Tentative Grading:* | # | Path 1 | # | Path 2 |  |
| Exam 1\* |  | 28 points |  | 23 points |  |
| Exam 2\* |  | 28 points |  | 23 points |  |
| Exam 3\* |  | 28 points |  | 23 points |  |
| Classroom attendance |  | 4 points |  | 4 points |  |
| Mini cases | 6 | 12 points | 3 | 7 points |  |
| Paper |  |  |  | 20 points |  |
| Classroom participation |  | Extra credit |  | Extra credit |  |

\*The exam with the highest average will be worth 42 points and the exam with the lowest average will be worth 12 points (Path 1) or 10 points (Path 2). This adjustment occurs **only** if all exams are taken in a timely manner. (Path 1 – 42+28+14+4+12 = 100; Path 2 – 36+23+10+4+7+20 = 100).

*Homework related notes:* Several problems and questions include parts about three different accounting methods associated with investments (prior to consolidation) – the full or complete equity method, the incomplete or partial equity method and the cost or initial value method. The incomplete or partial equity method can be ignored as merely a weighted combination of the other two methods.

**You are expected to follow Stern’s honor codes of conduct throughout the semester. Cheating will not be tolerated. It will result in the vacating of exam scores and an F for the course.**

***Default policies:*** Policies not outlined here will be covered by the Stern default policies document attached to this syllabus.

*Course schedule:*

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| Preliminary Schedule of Topics | Readings | Classroom Discussion | Extra Exercises\* |
| Introduction |  | GE – Financial Statements  Some analysis questions |  |
| Accounting for Minority Investments – Passive Investments, Equity Method | Ch 1 | (1-6 thru 1-9) | (1-14, 1-19) |
| Consolidations on Acquisition – Acquisition Method – Balance Sheet | Ch 2 | (2-9,2-10) Biovail-Valeant – Who acquired who? |  |
| Consolidations on Acquisition | Ch 2 | (2-26,2-33) |  |
| Consolidations – Valuation Issues & Cases | Case Materials | **(Choose 2 of 3)**  **Chp 2 Cases – Gillette, Wachovia, GSK-Novartis** | (2-11,2-12,2-17,2-19)). **Acquisitions** |
| Consolidations – After Date of Acquisition – Income Statement | Ch 3 | (3-4,3-7) | (2-16,,2-23) |
| Consolidations – After Date of Acquisition – Income Statement | Ch 3 |  |  |
| Consolidations – After Date of Acquisition – Impairments, Cash Flows | Ch 3, Ch 6 (270-274) | (3-11 thru 3-13), (6-6, 6-7), AOLTimeWarner, Microsoft -Impairment | (3-17,3-18,3-21) |
| Consolidations – After Date of Acquisition – Partial Acquisitions/ Review | Ch 4 (149-170) |  |  |
| **Exam 1 (Chaps 1 -3)** |  |  |  |
| Consolidations – After Date of Acquisition – Partial Acquisitions | Ch 4 (149-170) | (4-2 thru 4-4) |  |
| Consolidations – After Date of Acquisition – Partial Acquisitions |  | (4-12 thru 4-14) |  |
| Consolidations – After Date of Acquisition – Partial Acquisitions |  | (4-15 thru 4-19) | (4-26) |
| Consolidations – Taxes | Ch 7 (321-331) | (7-11, 7-12), **Chp 5 Case Henderson** | **Intra-Entity Transactions** |
| Alternate Restructurings – IPOs, LBOs | Notes |  |  |
| Alternate Restructurings – Spinoffs, Step Acquisitions, Indirect Ownership, VIEs | Ch 4 (170-175) | **Case** **T-Mobile**, Facebook | **IPO or Reverse Acquisition??** |
| Alternate Restructurings – Liquidations, Fresh Starts/ Review |  | **Case Morgan Stanley** | **Step Acquisition** |
| **Exam 2 (Chps 4-5,7)** |  |  |  |
| Foreign Currency – Reporting | Ch 10 | (10-4, 10-5) |  |
| Foreign Currency Conversions– (Current Method) | Ch 10 | (10-6 thru 10-9) |  |
| Foreign Currency Conversions – (Temporal Method) | Ch 10 | (10-10-10-11) **Case Coca Cola** | **Foreign Exchange**  **(10-15,10-28)** |
| Foreign Currency – Risk Management | Ch 9 | (9-1, 9-4) |  |
| Foreign Currency – Forwards, Hedges | Ch 9 | (9-9, 9-11, 9-12) Coca Cola, GE Hedging policies |  |
| Foreign Currency – Commitments, Forecasted Transactions/ Review | Ch 9 | (9-31, 9-32) | (9-11 thru 9-13, 9-29) |
| Review |  |  |  |

\*This is a minimal list of extra exercises. You may prefer to do more.

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| **Basic Goals and Issues of Each Topic** |
| Topic: **Introduction**  Goal: Course organization, examples of some of the issues  Basic issues: What is a restructuring? What is an acquisition? What is a consolidation?  Questions:  Are published financial statements actually consolidated statements?  What are some consistent elements of consolidated statements?  Classroom discussion case: General Electric financial statements  Expected time: 1 period |
|  |
| Topic: **Accounting for Minority Investments – Passive Investments, Equity Method**  Goal: Review the investment universe for accounting connections  Basic issues include: Types of investment valuation, relationships among these types of investments and course topics  Questions:  When are fair values versus book values used?  What investment performance impacts wealth, but not income?  How can management influence reporting of investment performance?  Read: Chapter 1 of text and notes (including representative results based on interactive spreadsheets available on NYU Classes and used in class)  Classroom discussion case: Pfizer financial statements  Representative textbook exercises (some may be done in class): 1-6 through 1-9  Expected time: 1 period |

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| Topic: **Consolidations on Acquisition – Acquisition Method – Balance Sheet**  Goal: Understand the fundamental issues of consolidation and financial integration for 100% acquisitions  Basic issues include: Types of acquisitions, cost of acquisitions, valuation of acquired assets, consolidation process  Questions:  How does a parent company’s financial statement change as it undergoes the consolidation process?  How does the appraisal value of acquired assets impact the consolidation?  How is the cash flow statement affected by the method of acquisition?  Read: Chapter 2 of text and notes (including representative results based on interactive spreadsheets available on NYU Classes and used in class)  Classroom discussion case: Biovail and Valeant – who controls who?  **Hand in discussion cases**: 2 of 3 cases  Gillette – Avoiding being an acquisition  Wachovia – Rationale for an acquisition  GSK – A series of acquisitions or a trade?  Representative textbook exercises (some may be done in class): 2-9 – 2-18, 2-26, 2-33  Expected time: 3 periods |
|  |
| Topic: **Consolidations – After Date of Acquisition – Income Statement**  Goal: Understand the cost and equity investment methods used by the preconsolidation parent. Understand the impact of time and subsequent events on consolidations of 100% owned subsidiaries. (The cost and equity methods are introduced as investment options in chapter 1)  Basic issues include: Tracking the performance of subsidiaries and income statements, Impact of book value versus fair value valuations (including impairments)  Questions:  Is the subsidiary’s income the same as the parent’s income earned from the 100% owned subsidiary?  What is the impact of the parent’s pre consolidation accounting method on the consolidation?  What is the impact on the cash flow statement?  Read: Chapter 3 and pgs. 270-274 (Cash Flows) of text and notes (including representative results based on interactive spreadsheets available on NYU Classes and used in class)  Classroom discussion case: Microsoft and Impairment  Representative textbook exercises (some may be done in class): 3-4, 3-7, 3-11 through 3-13, 6-6, 6-7  Expected time: 3 periods |

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| Topic: Consolidations – **Partial Acquisitions**  Goal: Understand the impact of partial acquisitions and the presence of noncontrolling interests; Analyze the impact on acquisition and thereafter.  Basic issues include: The difference between consolidated income, noncontrolling interest and the parent’s income; the impact of assets and liabilities being reported as wholly owned, but only have partial ownership  Questions:  What is the impact on financial ratios and analysis?  Why would a company acquire only part of a company if they feel it Is a good investment?  Will all owners have the same interests?  Why are some Variable Interest Entities (VIEs) consolidated despite a minority interest?  Read: Chapter 4 through pg. 170,pgs. (251-255) and notes (including representative results based on interactive spreadsheets available on NYU Classes and used in class)  **Hand in discussion case**: Walmart acquisition of Massmart (international and partial)  Representative textbook exercises (some may be done in class): 4-2, 4-4, 4-12 through 4-19  Expected time: 4 periods |
|  |
| Topic: Consolidations – **Intercompany Transactions**  Goal: Understand the impact of internal transactions in an integrated firm  Basic issues include: The difference confirmed and unconfirmed transactions; internal pricing decisions; possible divergent interests between the parent and the noncontrolling interests  Questions:  Why do internal transactions have to be removed?  What is the impact of the removal?  Do these transactions still exist in parts of the company even if they are removed in consolidation?  How does internal pricing impact investment decisions and management compensation?  Read: Chapter 5 (pgs. 203-226) and notes (including representative results based on interactive spreadsheets available on NYU Classes and used in class)  **Hand in discussion case**: Henderson Co. (conflict between management groups)  Representative textbook exercises (some may be done in class): 5-23, 5-24  Expected time: 2 periods |

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| Topic: Consolidations – **Taxes**  Goal: Understand the impact of tax policy on consolidation  Basic issues include: The relationship between tax reporting and financial statement reporting  Questions:  Does the type of acquisition impact the tax basis?  What majority investments cannot be consolidated for tax purposes?  How are internal dividends and unconfirmed internal sales taxed?  How are taxes allocated within the consolidation?  Read: Chapter 7 (pgs. 321-331) and notes (including representative results based on interactive spreadsheets available on NYU Classes and used in class)  Classroom discussion case: eBay, Pfizer financial statements and tax inversions  Representative textbook exercises (some may be done in class): 5-23, 5-24  Expected time: 1 period |
|  |
| Topic: **Alternate Restructurings**  Goal: Describe restructurings that differ from typical acquisitions and their relationships to acquisitions  Basic issues include: The differences and similarities among spinoffs, splitoffs; IPOs, LBOs, bankruptcy liquidations and bankruptcy fresh starts.  Questions:  Why does one event often lead to another event?  Why are LBOs and Fresh Starts similar to a typical acquisition?  How does a spinoff (splitoff) differ from an acquisition even though it is a ‘reversal’ of an acquisition?  Read: Chapter 2 (pgs. 170-174) and notes (including representative results based on interactive spreadsheets available on NYU Classes and used in class)  Classroom discussion cases:  Facebook (IPO)  Sears Holdings (spinoff of Orchard Supply)  Hostess Brands (Chapter 7 liquidation)  General Motors (Chapter 11 Fresh Start)  **Hand in discussion cases**: T-Mobile (What is the event - IPO, acquisition or reverse acquisition)  Morgan Stanley (step acquisition of Smith Barney from Citigroup)  Expected time: 3 periods |

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| Topic: Foreign operations – **Reporting**  Goal: Understand doing business using foreign currencies operating impacts financial statements  Basic issues include: The impact of changes in the exchange rates on company financial statements; the impact of a company’s translation methodology decision (current versus temporal) on financial statements; the importance of volume flows; the distinction between monetary accounts and current accounts  Questions:  Are these flows real?  What is the impact of a company’s monetary asset position on financial statements?  What rates should be used when converting from one currency to another?  What is the impact of hyperinflation?  How do reporting methodologies compare to those used for minority investments (described in chapter 1)?  Read: Chapter 10 (pgs. 457 - 481) and notes (including representative results based on interactive spreadsheets available on NYU Classes and used in class)  **Hand in discussion case**: Coca Cola (analysis of a multinational firm)  Representative textbook exercises (some may be done in class): 10-4 through 10-11  Expected time: 3 periods |
|  |
| Topic: Foreign operations – **Risk Management**  Goal: Understand doing business using foreign currencies tries to reduce financial risk so it can concentrate on its business  Basic issues include: The impact of changes in the exchange rates on the costs of doing business due to changes in rates during incomplete transactions company financial statements; the impact of a company’s translation methodology decision (current versus temporal) on financial statements; the importance of volume flows; the distinction between monetary accounts and current accounts  Questions:  How does hedging ameliorate a company’s financial risk?  Does a company hedge virtually every activity denominated in foreign currency?  Is hedging perfect?  How do hedging choices and accounting methodologies compare to those used for minority investments (described in chapter 1)?  Read: Chapter 9 and (pgs. 481 - 483) and notes (including representative results based on interactive spreadsheets available on NYU Classes and used in class)  Classroom discussion case: General Electric (reporting of its policies)  Representative textbook exercises (some may be done in class): 9-1, 9-4, 9-9, 9-11 through 9-13, 9-29, 9-31, 9-32  Expected time: 3 periods |

***Sample optional paper:*** Choose a two digit or three digit SIC industry (or a three digit NAICS code or a two digit ISIC code). Select three of the five largest companies in the industry (usually by sales or size in dollars) and one other company in the industry that interests you. Include appropriate references.

Go back three fiscal years for each company and then review the series of structural changes that have occurred during the past three years.

Consider three types of structural changes:

Internal changes such as board upheavals[[1]](#footnote-1), changes in segments and changes in geographical focus

External changes such as spinoffs and acquisitions

Financial changes such as substantial changes in the financial structure

The following issues are representative of some of your considerations. The issues may vary from industry to industry and company to company.

Does there seem to be a single consistent strategy associated or announced in relation to the activities of a company the past three years? Does it appear to be successful?

Has change in the company been driven more by internal growth or structural changes?

Are there a few major changes and/or many minor changes?

Are the companies in the industry following similar paths to change?

Are the firms continuously active or are the changes irregular?

Do the firms seem reactive to each other?

How has the changes impacted each company’s financial structure?

How has the changes impacted each company’s position in the industry?

Include a separate one page summary or outline of key bits of information. Summaries will be compiled for redistribution to the contributors. The paper is due at 6:00 PM New York City time on the date of the final exam during the final exam period. Delivery by email is required even if hard copy is also handed in.

***Mini case grade guide:*** Cases must be typed. Written material will not be accepted or reviewed. The amount of credit will be guided by this summary. Be concise; assume you are summarizing the relevant issues for management. Use at least 1½ line spacing, normal page borders and size 11 font. Use one paragraph to summarize the underlying issues and one paragraph to describe your opinion. There is a one page limit.

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| Dimension | Poor (√-) | Average (√) | Excellent (√+) |
| Statement of the Issues and driving Forces | Partial recognition of the factors | Identification of the factors | Thorough identification of the factors and their impacts |
| Opinion Based on the Above | Failure to link factors to your opinion | Partial integration of the identified factors into your opinion | Full integration of the factors into your opinion |

**These topics are discussed in varying degrees of depth.**

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| --- | --- | --- | --- |
| Topic | |  | |
| Minority Investments | | Trading securities | |
|  | | Available for sale securities | |
|  | | Equity method – minority investments | |
| Mergers | | 100% acquisition | |
|  | | Partial acquisition | |
|  | | Disappearance of acquired firm | |
|  | | Acquired firm survives | |
|  | | Purchase method | |
|  | | Pooling method | |
|  | | Acquisition method | |
|  | | Fair values (assets & firm) | |
|  | | Valuation of intangibles | |
|  | | Goodwill | |
|  | | In process R & D | |
|  | | Reporting units (not segments) | |
|  | | Impairment testing | |
|  | | IFRS’ differences | |
| Consolidations | | Consolidation process | |
|  | | Investment in subsidiary | |
|  | | Elimination (Consolidation) entries | |
|  | | Noncontrolling interest | |
| After acquisition | | Income statement | |
|  | | Equity method | |
|  | | Cost method | |
|  | | Cash Flow | |
|  | | Pushdown accounting | |
|  | |  | |
| Topic | |  | |
| Taxes | | Tax on internal flows | |
|  | | Affiliated groups | |
|  | | Requirements for tax consolidation | |
|  | | Intangibles and international issues | |
| Intra-Entity events | | Intra-Entity sales | |
|  | | Intra-Entity asset transfers | |
|  | | Impact on profits | |
| Restructurings | | Reverse acquistions | |
|  | | Leveraged buyouts (LBOs) | |
|  | | IPOs | |
|  | | Spinoffs & Splitoffs | |
|  | | Liquidation & Fresh starts | |
|  | | Segment reporting | |
| Foreign currency reporting | | Exchange rates | |
|  | | Comprehensive income | |
|  | | Conversions -translation | |
|  | | Conversions-remeasurement | |
|  | | Consolidation of foreign operations | |
|  | | Comprehensive income | |
| Foreign currency events | | Spot activity | |
|  | | Hedging | |
|  | | Fair Value hedges | |
|  | | Cash flow hedges | |
|  | | Firm commitments | |
|  | | Forecasted events | |
|  | | Hedge effectiveness | |
|  | | Options | |

*A Quick Overview and Summary:* There were three acceptable consolidation methods. Pooling has been disallowed for new acquisitions since 2001. The purchase method has been disallowed for new acquisitions since December 2008. The acquisition method is the only acceptable method for new acquisitions today. However, consolidated statements today include elements of all three methods with the no longer allowed methods slowly disappearing from the financial statements as the associated assets and liabilities age.

|  |  |  |  |
| --- | --- | --- | --- |
| **Summary of Consolidation Methods** | **Acceptable**  **Acquisition Method** | **Not Acceptable**  **after 2008**  **Purchase Method** | **Not Acceptable**  **after 2001**  **Pooling** |
| **Values** | **Fair Value** | Mix | Book Value |
| **Type of financial consideration** | **Any** | Any | Stock primarily |
| **Amount of financial consideration** | **Fair value** | Adjusted fair value | Book value |
| **Valuation adjustments on 100% acquisition** | **100% adjustment** | 100% adjustment | None |
| **Valuation adjustments on partial (less than 100%) acquisition** | **100% adjustment** | Acquired portion only | None |
| **Assets discovered** | **New intangibles** | New intangibles | None |
| And Goodwill | **for parent and** | For parent only | None |
|  | **Noncontrolling interest** |  |  |
| **Consolidation of the subsidiary** | **Include only events** | Include only events | Treated as having |
|  | **after the acquisition** | after the acquisition | been together forever |

**Additional comments:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Investment Accounting** | |  |  |
| Ownership | <20% | 20-50% | >50% |
| Available for Sale\* | X |  |  |
| Trading\* | X |  |  |
| Equity Method |  | X |  |
| Equity Method |  |  | X- prior to consolidation |
| Cost Method |  |  | X- prior to consolidation |
| \*Similar to accounting for foreign exchange | | |  |

Business in Foreign Currencies

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Conversions to Dollars for Reporting | | | Transactions | |
| Conversions before Consolidation | | Consolidation In dollars | Spot Market Risk | Hedging Forward Markets Neutralizes Risk |
| Translation | Remeasurement |
| Major Operations | Minor Operations |
| Net Assets | Net Monetary Assets |  | Commitments |
| Comprehensive Income | Income |  | Forecasted Events |

1. Changes in boards are always happening. This refers to activist shareholders such as Carl Icahn (Dell & Apple), Warren Buffett (Coca Cola), William Ackman (JC Penney & Allergan) and others encouraging changes in management or financing. [↑](#footnote-ref-1)