A THE CASE STUDY

Based on the structure of a group, group accounting can become very challenging and complex. This applies particularly to large groups. Therefore, a certain knowledge of group accounting is required. While some accounting concepts as implemented in current IFRS might not be easy to understand, examples are used to illustrate the rationale, the accounting and their effects. Often, accounting standards interact with or complement each other. To illustrate this behaviour, either other examples are provided or interactions of examples are explained. While an example is better to understand if it is embedded in an environment, all examples provided are based on one accounting environment. Therefore, a case study accompanies this book. This case study consists of a smaller group with around 20 subsidiaries, associates and joint operations.[1] The group has to prepare consolidated financial statements as of 31.12.2013 based upon audited separate financial statements of the companies of the group. The group's transactions during the period and their accounting practices are used to provide examples of group accounting topics discussed throughout all chapters of the book. The examples will highlight selected issues discussed in each chapter. Each example covers an accounting issue without any reference to other chapters.

[1] The group used in this book is based on a real group in which financials are alienated and enhanced by additional companies to present all concepts of group accounting.

1. ABOUT THE GROUP

Flexing Cables is an international group which does business around the globe. Its ultimate parent is a European company, publicly listed on a European stock exchange. The core business of the group is the manufacturing of cables and cabling systems for specific purposes and applications, often based on customer specifications. This is a niche market and the group generates solid profits. Nevertheless, the invention in the overall market of new cables has affected the business of the group. Therefore, management has disposed of two manufacturing sites that produced copper-based cables and cabling systems, products which will not be demanded by clients in the near future. These products had faced a steady decline over recent years due to shifts in the market. Management has also acquired a new company specialized in individual cable solutions based on customer specifications. To strengthen the sales activities and control sales channels, the parent was able to increase its stakes in some of the investments in sales companies by taking over shares held by the former owners.

All activities of the group are arranged in five business units of which one business unit was jettisoned during the period. The group's management philosophy is to grant business units maximum freedom in making strategic decisions about the product portfolio, product invention, market presence and position in their special markets as long as the strategies fit into the group's overall strategy. Administrative functions (accounting, legal, HR and IT) are centralized at group level. For group purposes, the accounting function is implemented in a corporate centre that includes compliance, consolidation, financing and reporting tasks.

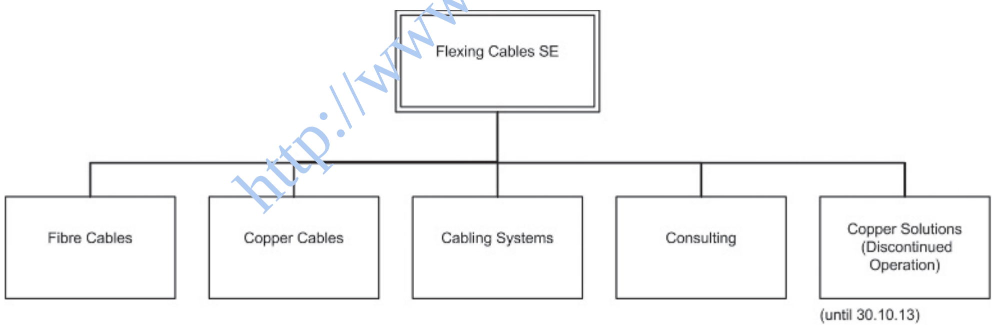

Fig. A-1 Business unit structure Flexing Cables

Production facilities of the group are allocated directly to that business unit for which they manufacture products. To minimize the legal structure of the group, sales companies serve all business units. An allocation of revenues and expenses to business units is ensured as the accounting departments in each sales company record all business unit specific transactions.

The legal structure of the group has grown by a mixture of organic growth and acquisitions. An optimization of the group due to legal and taxation did not take place. The group's legal structure during the 2013 period is presented below.

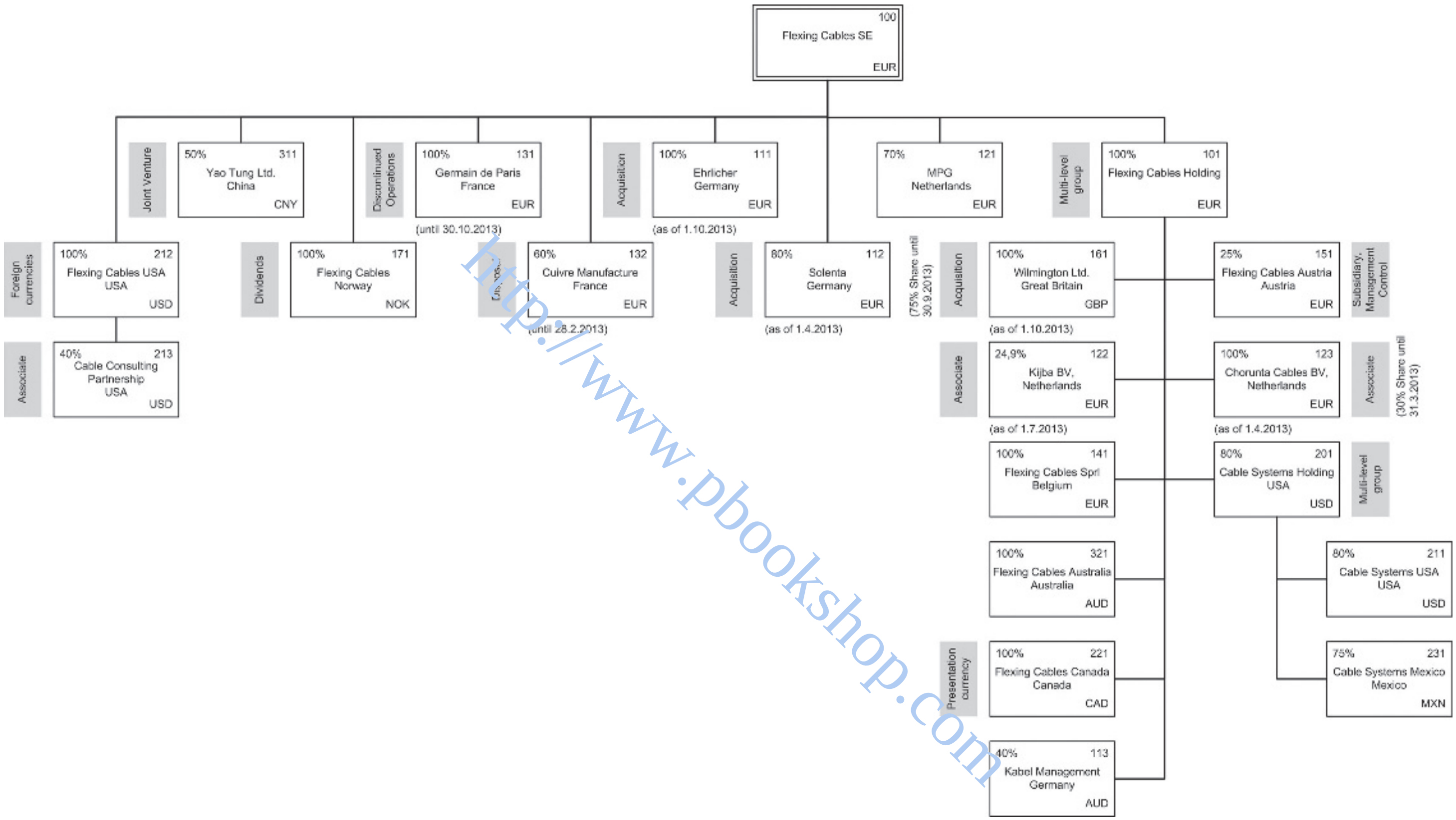

Fig. A-2 Group legal structure Flexing Cables

Preparing consolidated financial statements requires detailed information from all companies of the group. Information will be provided in the examples as appropriate. In addition to detailed information from subsidiaries, some general information about the group's accounting policies is provided upfront:

- The presentation of the statement of income is based on the classification of revenues and expenses by function. Internally, the company applies the profit & loss statement by nature.[2]
- The group's policy on inventories is to minimize and centralize inventory whenever possible. Therefore, sales companies shall only maintain a minimum storage of inventory for products with high customer demand and spare parts to ensure deliverability. All other inventory is managed by the production facilities.
- Production facilities deliver manufactured goods to sales companies only. No external sale is performed by these companies.
- The group always use IFRS in its current version. If an earlier application of new IFRS is applicable, management follows the IASB's recommendation of an early application.

2. ALLOCATION OF EXAMPLES

To allocate the examples in this book to the companies of the group the following list provides a mapping as a courtesy. The sorting order follows the lifecycle of a company in a group.

[2] The consolidation of a statement of income classified by nature is more challenging than a statement of income classified by function.

Example no.	Chapter	Case	Company involved	Page
1	B -1.3	Transition of the accounting in joint ventures to new standards	Yao Tung	15
2	C -1	Change in status from associate to subsidiary due to management control of the parent	Flexing Cables Austria	27
3	C -2	Determination of joint control	Yao Tung	33
4	C -3	Disposal of subsidiary and therefore loss of control	Cuivre Manufacture	35
5	D -2.3	Organization of the group: Segments and business units	Flexing Cables SE	49
6	E -1.1	Valuation levels in the group	Flexing Cables SE	63
7	E -1.2	IFRS conversion: Preparation of an IFRS opening balance sheet	Solenta	65
8	E -2.1	View by the parent on the acquisition of Solenta	Flexing Cables SE, Solenta	70
9	E -3.1	Identification of the acquirer	Solenta	74
10	E -3.2	Determination of the acquisition date	Solenta	76
11	E -3.2	Determination of the purchase price of the acquisition of Solenta	Flexing Cables SE	80
12	E -3.4.2	Remeasurement of assets acquired and liabilities assumed	Solenta	85
13	E -3.4.2	Subsequent measurement of remeasured assets and liabilities	Solenta	86
14	E -3.4.3.1	Identification, measurement and accounting of non-accounted intangible assets	Solenta	91
15	E -3.4.3.4	Identification, measurement and accounting of non-accounted liabilities	Solenta	96
16	E -3.4.3.5	Measurement and accounting of tax losses carried forward	Solenta	97
17	E -3.5	Determination of goodwill	Solenta	102
18	E -5.1	Accounting for the acquisition of Solenta at parent level	Flexing Cables	108
19	E -5.2.1	Solenta acquisition: Preparation for accounting at group level	Solenta	112
20	E -5.2.2	Solenta acquisition: Pre-existing relationships, part 1	Solenta	115
21	E -5.2.2	Solenta acquisition: Consolidation journal entries	Solenta	117

(continued)

Example no.	Chapter	Case	Company involved	Page
22	E -6.2	Step acquisition, part 1	Ehrlicher	120
23	E -6.2	Step acquisition, part 2	Ehrlicher	121
24	E -6.2	Step acquisition, part 3	Ehrlicher	121
25	E -6.4	Sideletter to the Solenta acquisition: Employment contract on managing director who is also one of the former owners, part 1	Solenta	124
26	E -6.4.1	Sideletter to the Solenta acquisition: Employment contract on managing director who is also one of the former owners, part 2	Solenta	125
27	E -6.5	Solenta acquisition: Pre-existing relationships, part 2	Solenta	125
28	E -6.5	Solenta acquisition: Pre-existing relationships, part 3	Solenta	131
29	E -6.6	Shares in Flexing Cables held by acquiree	Solenta	132
30	F -2	Preparation of subsidiary for subsequent consolidation	Solenta	141
31	F -3.2	Equity consolidation	Solenta	149
32	F -4.2	Debt consolidation, trading	MPG, Flexing Cables Belgium	151
33	F -4.2	Debt consolidation, trading with offset differences	Ehrlicher, Chorunta Cables	152
34	F -4.2	Debt consolidation, financing: Intercompany loans	Flexing Cables SE, MPG	152
35	F -4.2	Debt consolidation, collaboration: Management charges	Flexing Cables SE	153
36	F -4.2	Debt consolidation, other activities: VAT groups	MPG, Chorunta Cables	153
37	F -4.3	Debt consolidation, unreal offset differences	Solenta, Flexing Cables Austria	155
38	F -4.4.3	Netting of intercompany debts	Flexing Cables SE, Ehrlicher, Flexing Cables Belgium	158
39	F -5.2.1	Consolidation for immediate sale	MPG, Flexing Cables Belgium	162
40	F -5.2.1	Consolidation for later sale	MPG, Chorunta Cables	163
41	F -5.2.1	Consolidation for own use	Solenta, Flexing Cables Austria	164

Example no.	Chapter	Case	Company involved	Page
42	F -5.2.1	Consolidation for own consumption	Flexing Cables SE, Flexing Cables Austria	165
43	F -5.2.2	Consolidation for immediate sale	MPG, Flexing Cables Belgium	167
44	F -5.2.2	Consolidation for later sale	MPG, Choruntа Cables	168
45	F -5.2.2	Consolidation for own use	Solenta, Flexing Cables Austria	169
46	F -5.2.2	Consolidation for own consumption	Flexing Cables SE, Flexing Cables Austria	170
47	F -5.2.3	Consolidation differences due to foreign exchange rates	Flexing Cables Norway, Flexing Cables SE	172
48	F -6.2	Transfer pricing system of a group	Flexing Cables SE	186
49	F -6.3	Unrealized profit elimination	MPG, Choruntа Cables	189
50	F -7.2	Profit allocation of non-controlling interests	Solenta	191
51	F -8.3	Netting of deferred taxes	Flexing Cables Norway	209
52	F -8.4	Reclassifications	Solenta	210
53	F -9.1.2	Ordinary profit distributions	Flexing Cables Belgium	212
54	F -9.2	Intercompany sales of fixed assets	Ehrlicher, Solenta	216
55	F -9.3.2	Multi-level groups, chain consolidation	Cable Systems USA, Cable Systems Holding, Flexing Cables Holding, Flexing Cables SE	223
56	F -9.3.2	Multi-level groups, simultaneous consolidation	Cable Systems USA, Cable Systems Holding, Flexing Cables Holding, Flexing Cables SE	231
57	G -2.1.1	Purchase price allocation associate	Kijba	247
58	G -2.1.2	Initial consolidation associate	Kijba	249

(*continued*)

Example no.	Chapter	Case	Company involved	Page
59	G -2.2.1	Subsequent consolidation associate, purchase price allocation update	Kijba	251
60	G -2.2.1	Subsequent consolidation associate, adjustments	Kijba	253
61	G -2.2.2	Application of equity method	Kijba	253
62	G -2.2.4	Elimination of unrealized profits, downstream	Kijba	258
63	H -1	Definition of joint control	Yao Tung	276
64	I -3.5	Acquisition of additional shares and status change from associate to subsidiary	Chorunta Cables	296
65	I -5.4.1	Acquisition of additional shares and no status change	Wilmington	319
66	J -3.1	Sales of all shares in subsidiary	Cuivre Manufacture	327
67	J -3.2.1	Calculation of gain at group level due to sale of shares	Cuivre Manufacture	329
68	J -3.2.2	Elimination procedure	Cuivre Manufacture	331
69	J -3.2.3	Goodwill management	Cuivre Manufacture	332
70	J -3.2.4	Recycling of other comprehensive income	Cuivre Manufacture	333
71	J -3.2.5	Deconsolidation	Cuivre Manufacture	334
72	J -3.2.6	All journal entries of the deconsolidation	Cuivre Manufacture	337
73	K -1.3	Foreign currency translation into presentation currency	Flexing Cables Canada	363
74	K -1.4	Determination of the exchange rate	Flexing Cables Canada	367
75	K -2.2.1	Accounting for inside basis differences I	Solenta	376
76	K -2.2.2	Accounting for inside basis differences II	Solenta	376

Tab. A-1 List of examples