



FINANCIAL REPORTING - FINAL EXAM

Cristina Neto de Carvalho

Date: April 13, 2013

Duration: 2 hours

GROUP I

(7 points)

*The **Portucel Soporcel** group is one of Portugal's leading players on the world stage, accounting for more than 3% of the country's visible exports.*

The new paper mill has had a significant impact on the Portuguese economy, positioning the Group as the leading European manufacturer of UWF printing and writing paper and the 6th largest producer in the world. This has placed Portugal at the top of the European ranking of countries manufacturing this type of paper. The Group is also Europe's leading manufacturer, and one of the largest producers in the world, of bleached eucalyptus kraft pulp (BEKP).

The Group currently boasts an annual production capacity for 1.6 million tons of paper, 1.4 million tons of pulp (of which 1.1 million is integrated into paper) and power generation of 2.5 TWh, adding up to an annual turnover above 1,500 million euros.

The Group has successfully pursued a strategy of innovation and development of its own brands, which today account for 60% of sales of manufactured products. Special mention should be made of the Navigator brand, the world's best-selling product in the premium office paper segment.

1- Deferred Taxes

Note 26 ^{page 7} discloses additional information on Deferred Taxes.

- a. Explain why are only Temporary differences reported.
- b. Explain the difference between a Deferred tax asset and a Deferred tax liability.
- c. Explain how can the following changes give rise to deferred taxes:
 - Tax losses carried forward
 - Taxed provisions
 - Retirement ~~provisions~~ ^{benefits}
 - Revaluation of fixed assets and
 - Fair value of tangible fixed assets.

2- Consolidation

List the items in Portucel's Income Statement ^{Rg. 5} and Statement of Financial Position ^{Rg. 6} that indicate the use of different methods of reporting investments in investees.

3- Employee benefits

- a. Using a Statement of financial position format, explain, **and justify**, how the following benefits should be accounted for every year:
 - Wages
 - Yearly bonus
 - Stock options
 - Retirement bonus
- b. Explain also how *Costs recognized in the Income statement* are determined. Identify the relevant variables.

27.4 RETIREMENT BONUSES

Some of the Group's companies assumed a liability for the payment of a retirement bonus, equal to 6 months of salary, if the employee retires at the regular age of retirement (65 years). The movements in this liability were as follows:

Amounts in Euro	2011	2010
Opening balance	3,113,104	2,778,472
Costs recognized in the income statement	129,921	393,161
Bonuses paid	(54,842)	(29,302)
Other changes	58,528	(29,227)
Closing balance	3,246,711	3,113,104

GROUP II

(3 points)

The Worldcom company fraudulent reporting was discussed in class.

- 1) Describe the Accounting Manuever used.
- 2) Describe the role of the Whistleblower.

Note: If the case you presented in class was Worldcom then choose another company and answer question 1 and list the causes that lead to this situation.

GROUP III

(10 points)

1 -

- a. Define Control under IFRS 10
- b. Can control exist without 51% of voting rights?
- c. Define subsidiary company, associate company and joint venture.
- d. Explain the differences, in terms of concept and reporting, between a Joint venture and a Joint operation.

2 - On 1 January 2012, NinMount paid € 320 million to purchase 50% stake in Boswell Company. The excess of the purchase price over the fair value of Boswell was attributable to previously unrecorded licenses. These licenses are estimated to have an economic life of 14 years. The fair value of Bowell's assets and liabilities other than licenses was equal to their recorded book values.

The parent company is concerned whether the investment should penalize ratios and affect its rating. The company has reasonable arguments to classify the investee as a subsidiary or as an associated company.

Assume that at the date of acquisition Bowell Shareholders equity was € 570 million.

NinMount Financial statements for the year ended 31 December 2012:

<i>Million euros</i>	NinMount	Boswell
Net sales	950	510
Cost of goods sold	-495	-305
Selling expenses	-50	-15
Administrative expenses	-136	-49
Depreciation and amortization expenses	-102	-92
Interest expense	-42	-32
Profit before taxes	125	17
Income tax expense	-50	-7
Net profit	75	10

<i>Million euros</i>	NinMount	Boswell
Assets		
Property, plant and equipment	1.570	930
Investment in Boswell	320	
Inventories	130	75
Receivables	70	45
Cash	50	20
Total Assets	2.140	1.070
SE and Liabilities		
Share capital	850	535
Retained earnings	505	35
Net profit	75	10
SE	1.430	580
Non-current liabilities		
Bank loans	600	400
Current liabilities		
Trade payables	100	80
Other current liabilities	10	10
Total liabilities	710	490
Total SE and Liabilities	2.140	1.070

- Prepare the Consolidated financial statements under both hypotheses. *Handwritten signature*
Detail your calculations of Goodwill, Non-controlling interest and SE.
- The group's *net profit margin* will be highest under which alternative?
- The group's *ROE* will be highest under which alternative?
- The group's *Debt ratio* will be highest under which alternative?
(Book value / Assets)
- Under which consolidation methods would the group's financial statements give a better image?

CONSOLIDATED SEPARATE INCOME STATEMENT

As of 31 December 2011 and 2010

Amounts in Euro	Note	2011	2010
Revenues	4		
Sales		1,484,263,944	1,381,917,937
Services rendered		3,620,349	3,537,751
Other operating income	5		
Gains on the sale of non-current assets		75,040	3,194,781
Other operating income		21,407,642	19,664,346
Change in the fair value of biological assets	18	266,690	(7,787,354)
Costs	6		
Cost of inventories sold and consumed		(580,268,510)	(517,223,456)
Variation in production		(38,752,817)	(5,635,463)
Cost of materials and services consumed		(358,296,358)	(336,907,043)
Payroll costs		(133,713,092)	(127,020,239)
Other costs and losses		(13,529,807)	(13,574,714)
Provisions		5,610,786	(1,165,032)
Depreciation, amortization and impairment losses	8	(124,527,404)	(121,184,784)
Operational results		266,156,463	277,816,730
Group share of (loss) / gains of associated companies and joint ventures		593,751	-
Net financial results	10	(16,346,454)	(20,079,417)
Profit before tax		250,403,760	257,737,313
Income tax	11	(54,057,904)	(47,157,088)
Net income		196,345,856	210,580,225
Non-controlling interests	13	(14,467)	7,855
Net profit for the year		196,331,389	210,588,080
Earnings per share			
Basic earnings per share, Eur	12	0.262	0.280
Diluted earnings per share, Eur	12	0.262	0.280

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 31 December 2011 and 2010

Amounts in Euro	Notes	31-Dec-11	31-Dec-10
ASSETS			
Non-Current Assets			
Goodwill	15	376,756,384	376,756,384
Other intangible assets	16	2,776,759	94,486
Plant, property and equipment	17	1,529,709,225	1,604,129,728
Biological assets	18	110,769,306	110,502,616
Available-for-sale financial assets	19	126,031	126,074
Investment in associates	19	1,778,657	516,173
Deferred tax assets	26	46,271,758	22,963,945
		2,068,188,120	2,115,089,406
Current Assets			
Inventories	20	188,690,926	172,899,681
Receivable and other current assets	21	242,257,094	212,839,536
State and other public entities	22	54,684,123	32,228,030
Cash and cash equivalents	29	267,431,715	133,958,910
		753,063,858	551,926,157
Total Assets		2,821,251,978	2,667,015,563
EQUITY AND LIABILITIES			
Capital and Reserves			
Share capital	24	767,500,000	767,500,000
Treasury shares	24	(42,154,975)	(26,787,706)
Fair value reserves	25	(523,244)	78,040
Other reserves	25	57,546,582	47,005,845
Currency translation reserve	25	(485,916)	881,575
Other reserves	25	499,721,012	304,020,378
Net profit for the year		196,331,389	210,588,080
		1,477,934,848	1,303,286,212
Non-controlling interests	13	220,660	216,755
		1,478,155,508	1,303,502,967
Non-current liabilities			
Deferred tax liabilities	26	193,236,695	164,998,958
Pensions and other post-employment benefits	27	16,682,785	13,713,756
Provisions	28	19,602,592	25,213,377
Interest-bearing liabilities	29	566,813,031	729,696,907
Other non-current liabilities	29	18,109,324	24,471,153
		814,444,427	958,094,151
Current liabilities			
Interest-bearing liabilities	29	164,085,292	91,250,000
Payables and other current liabilities	30	284,893,379	264,839,433
State and other public entities	22	79,673,372	49,329,012
		528,652,043	405,418,445
Total liabilities		1,343,096,470	1,363,512,596
Total equity and liabilities		2,821,251,978	2,667,015,563

26 DEFERRED TAXES

In the years ended 31 December 2011 and 2010, the changes in assets and liabilities as a result of deferred taxes were as follows:

Amounts in Euro	Income Statement			Equity	As of 31 December 2011
	As of 1 January 2011	Increases	Decreases		
Temporary differences originating deferred tax assets					
Tax losses carried forward	408,173	-	(159,717)	-	248,456
Taxed provisions	1,333,951	588,950	-	-	1,922,901
Adjustments in fixed assets	52,478,380	50,880,999	-	-	103,359,379
Retirement benefits	3,171,632	78,940	-	-	3,250,572
Derivative financial instruments	-	-	-	763,861	763,861
Deferred accounting gains on inter-group transactions	10,692,933	9,419,976	-	(62,810)	20,050,099
Valuation of biological assets	8,157,968	-	(7,461,154)	-	696,814
Depreciation of assets recognized under IFRIC 4	3,631,551	-	(3,631,551)	-	-
Investment grants	-	16,602,389	-	-	16,602,389
	79,874,588	77,571,254	(11,252,422)	701,051	146,894,471
Temporary differences originating deferred tax liabilities					
Revaluation of fixed assets	(19,973,300)	-	1,520,474	1,738,456	(16,714,370)
Retirement benefits	(994,026)	(71,070)	-	159,358	(905,738)
Derivative financial instruments	(109,529)	-	-	109,529	-
Adjustments in the conversion of PGAAP	(29,745,883)	-	10,678,465	-	(19,067,418)
Fair value of tangible fixed assets	-	(3,179,438)	-	-	(3,179,438)
Tax benefits	(62,087,933)	(13,859,014)	-	-	(75,946,947)
Extension of the useful life of the tangible fixed assets	(356,185,011)	-	74,940,140	-	(281,244,871)
Investment incentives	-	-	-	(305,739)	(305,739)
Deferred accounting losses on inter-group transactions	(104,813,742)	(111,271,565)	-	-	(216,085,307)
	(573,909,424)	(128,381,087)	87,139,079	1,701,604	(613,449,828)
Amounts presented on the statement of financial position					
Deferred tax assets	22,963,945	22,301,734	(3,235,071)	201,552	42,232,160
Effect of the change in tax rate	-	4,042,372	-	(2,774)	4,039,598
	22,963,945	26,344,106	(3,235,071)	198,778	46,271,758
Deferred tax liabilities	(164,998,958)	(36,909,563)	25,052,485	489,211	(176,366,825)
Effect of the change in tax rate	-	(16,712,295)	-	(157,575)	(16,869,870)
	(164,998,958)	(53,621,858)	25,052,485	331,636	(193,236,695)