Solutions Chapter 17

Exercise 17.1
a. Number of Sitting Duck shares = $10,000/$2.50 = 4,000.
Takeover sum: 4,000*0.55*$21 = $46,200.
b.
($)

Item	*Calculations*	*Amount*
Goodwill	$46,200 – (0.55*$28,000)	30,800
Fixed assets	25,000 + 45,000	70,000
Current assets	33,000 + (69,000 – 25,000)	77,000
Total Assets		**177,800**
Common stock		17,000
Reserves		37,000
Debt	30,000 + 60,000 + 21,200	111,200
Minority interest	0.45*28,000	12,600
Total Sources		**177,800**

c.
($)

Item	*Calculations*	*Amount*
Fixed assets	25,000 + 45,000	70,000
Current assets	33,000 + (69,000 – 25,000)	77,000
Total Assets		**147,000**
Common stock		17,000
Reserves	37,000 – 30,800	6,200
Debt	30,000 + 60,000 + 21,200	111,200
Minority interest	0.45*28,000	12,600
Total Sources		**147,000**

Exercise 17.2
a. Alco buys 3,500 Balco shares for $91,000.
Alco issues $91,000/$28 = 3,250 new shares.

a.

Post takeover balance sheet ($1,000)

Item	*Calculations*	*Amount*
Financial asset	0.7*66	46.2
Goodwill	91 – 46.2	44.8
Property and plant		163
Inventory		25
Receivables		48
Cash		22
Total assets		**349**
Common stock	100 + 32.5	132.5
Reserves	46 + 58.5	104.5
Debt		112
Total Sources		**349**

b.

Fully consolidated balance sheet ($1,000)

Item	*Calculations*	*Amount*
Goodwill		44.8
Property and plant	163 + 46	209
Inventory	25 + 27	52
Receivables	48 +21	69
Cash	22 +8	30
Total Assets		**404.8**
Common stock		132.5
Reserves		104.5
Debt	112 + 36	148
Minority interest	0.3*66	19.8
Total Sources		**404.8**

c.

Proportionally consolidated balance sheet ($1,000)

Item	*Calculations*	*Amount*
Goodwill		44.8
Property and plant	163 +0.7*46	195.2
Inventory	25 + 0.7*27	43.9
Receivables	48 +0.7*21	62.7
Cash	22 +0.7*8	27.6
Total Assets		**374.2**
Common stock		132.5
Reserves		104.5
Debt	112 + 0.7*36	137.2
Total Sources		**374.2**

d. The inventory will be $1,000 lower, reflecting the purchase price for the group. Simultaneously, the intercompany profit in this transaction must be eliminated by adjusting the reserves downward by $1,000. Both receivables and debt must be $4,000 lower.

Exercise 17.3

a.

Item	*Calculations ($)*	*Amount ($)*
Financial asset	0.6*4,000	2,400
Inventory		8,000
Cash	7,000 – 2,400	4,600
Total Assets		**15,000**
Equity		10,000
Debt		5,000
Total Sources		**15,000**

b.

Item	*Calculations ($)*	*Amount ($)*
Inventory	8,000 + 3,000	11,000
Cash	7,000 – 2,400 + 2,000	6,600
Total Assets		**17,600**
Equity		10,000
Debt	5,000 + 1,000	6,000
Minority interest	0.4*4,000	1,600
Total Sources		**17,600**

c.

Item	*Calculations ($)*	*Amount ($)*
Inventory		3,000
Cash	2,000 + 500	2,500
Total Assets		**5,500**
Equity	4,000+(500 –200)	4,300
Debt		1,000
Dividend payable	400*0.50	200
Total Sources		**5,500**

d.

Item	*Calculations ($)*	*Amount ($)*
Financial asset	0.6*4,300	2,580
Inventory		8,000
Cash	4,600 + 1,000	5,600
Dividends receivable		120
Total Assets		**16,300**
Equity	10,000 + 400 + 0.6*500	10,700
Debt		5,000
Dividend payable	500*1.20	600
Total Sources		**16,300**

e.

Item	*Calculations ($)*	*Amount ($)*
Inventory		11,000
Cash	6,600 + 1,000 + 500	8,100
Total Assets		**19,100**
Equity		10,700
Debt	5,000 + 1,000	6,000
Minority interest	0.4*4,300	1,720
Dividend payable	600+ 0.4*200	680
Total Sources		**19,100**

f. Changes on Mouse balance sheet:
Equity would be $4,500 and dividends payable would be 0.

Changes on Cat balance sheet:
Financial asset would be $2,700 (=0.6*$4,500).
Dividends receivable would be 0.

Changes on consolidated balance sheet:
Minority interest would be $1,800 (=0.4*$4,500)
Dividends payable would be $600.

Exercise 17.4
A controls 65% of D. D controls 70% of A. It's a close race but D seems to dominate A rather than the other way around.