



CAREER CLUSTER

Finance

CAREER PATHWAY

Corporate (Banking) Finance

INSTRUCTIONAL AREA

Financial Analysis

CORPORATE FINANCE EVENT

PARTICIPANT INSTRUCTIONS

- The event will be presented to you through your reading of the General Performance Indicators, Specific Performance Indicators and Case Study Situation. You will have up to 30 minutes to review this information and prepare your presentation. You may make notes to use during your presentation.
- You will have up to 15 minutes to make your presentation to the judge (you may have more than one judge).
- Turn in all of your notes and event materials when you have completed the event.

GENERAL PERFORMANCE INDICATORS

- Communications skills – the ability to exchange information and ideas with others through writing, speaking, reading or listening
- Analytical skills – the ability to derive facts from data, findings from facts, conclusions from findings and recommendations from conclusions
- Production skills – the ability to take a concept from an idea and make it real
- Priorities/time management – the ability to determine priorities and manage time commitments
- Economic competencies

SPECIFIC PERFORMANCE INDICATORS

- Discuss the issuance of stock from a corporation.
- Determine the impact of business decisions on capital market prices.
- Explain the nature of statements of changes in equity.
- Discuss the role of ethics in finance.
- Discuss the analysis of a company's financial situation using its financial statements.

CASE STUDY SITUATION

You are the the CFO for RENO-PLACE INC. At the most recent shareholder meeting the CEO was asked a question by a shareholder regarding the sale of one of RENO-PLACE'S holding companies, ACME COMPANY. The question eluded to the fact that the RENO-PLACE sold its stake in ACME CO. at a loss during a time when the holding company was very profitable and making money. The CEO had just concluded her speech on the recent success and bright future of RENO-PLACE.

The CEO responded that the shareholder must be mistaken as she stated the shares were bought for \$1,100,000 some years ago, and in that time must have increased in share value. The shareholder however referred to the latest financial statements and stated the following:

“In note 7 of the financial statements, it shows that 240,000 shares – or 30% interest in ACME CO – were sold on the last day of the year. Also, it states that ACME CO. earned \$550,000 this year and paid out \$150,000 in cash dividends. Further, a summary statement indicates that in past years, while RENO-PLACE held ACME shares, ACME earned \$1,240,000 and paid out \$440,000 in dividends. Finally, the income statement for this year shows a loss on the sale of ACME CO. shares of \$180,000.”

YOUR CHALLENGE

You have heard the shareholder's question and have the answer. You realize, however, that the CEO has been put in an awkward position, and you want all shareholders to realize that the CEO is partially correct in her answer.

You will also address the information in the financial reports and the importance of financial notes as well as accounting for equity purchases in other companies. In your response, you will also calculate the exact amount RENO-PLACE received when it sold the shares.

You will present your answer to the shareholder and explain what impact the current value of the shares had on the sale, and explain why the CEO thought the sale realized a profit for the RENO-PLACE.

SOLUTION

The dollar amount received upon the sale of the ACME COMPANY shares was \$1,280,000. Since RENO-PLACE INC. has a 30% interest in ACME, the equity method should be used to report dividends and income. A series of T-accounts can be prepared for the acquisition, the equity treatment of dividends and income, and the sale. A plug figure for cash will balance the entry for the sale. These entries are provided below.

T accounts for the investment in ACME COMPANY:

Equity Investment - Acme	Cash																
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; padding: 5px;">(1) 1,100,000</td> <td style="width: 50%; padding: 5px;">132,000 (3)</td> </tr> <tr> <td style="padding: 5px;">372,000</td> <td style="padding: 5px;">45,000 (5)</td> </tr> <tr> <td style="padding: 5px;">165,000</td> <td></td> </tr> <tr> <td style="border-top: 1px solid black; padding: 5px;">(6) 1,460,000</td> <td style="border-top: 1px solid black; padding: 5px;">1,460,000</td> </tr> </table>	(1) 1,100,000	132,000 (3)	372,000	45,000 (5)	165,000		(6) 1,460,000	1,460,000	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; padding: 5px;">132,000</td> <td style="width: 50%; padding: 5px;">1,100,000</td> </tr> <tr> <td style="padding: 5px;">45,000</td> <td></td> </tr> <tr> <td style="border-top: 1px solid black; padding: 5px;"></td> <td style="border-top: 1px solid black; padding: 5px;"></td> </tr> </table>	132,000	1,100,000	45,000					
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Calculations:

- (1) Acquisition
- (2) $1,240,000 \times 30\%$ (previous year)
- (3) $440,000 \times 30\%$
- (4) $550,000 \times 30\%$ (this year)
- (5) $150,000 \times 30\%$

Sale of the AHM Company Shares

- (6) $1,100,000 + (372,000 + 165,000) - (132,000 + 45,000)$
- (7) Given in case study

Since the equity method adjusts the investment account for the earnings of ACME, the "very profitable" ACME investment balance has increased during the period the shares were held. However, the shares were sold at less than its current investment balance, and thus a loss was recognized.

The shareholder is correct in labelling this a very profitable company, and in noting that a loss was recognized on its sale.

The CEO is also correct, in that the investment was sold at a higher figure than the \$1,100,000 purchase price.

The key to the dilemma is to note that the selling price was less than the carrying amount of the investment at the time of sale, not its original cost. The carrying amount had increased substantially, due to the recognition of ACME income during the time the shares were held.

EVALUATION INSTRUCTIONS

The participants are to be evaluated on their ability to perform the specific performance indicators stated on the cover sheet of this event and restated on the Judge's Evaluation Form. Although you may see other performance indicators demonstrated by the participants, those listed in the Performance Indicators section are the critical ones you are measuring for this particular event.

Evaluation Form Interpretation

The evaluation levels listed below and the evaluation rating procedures should be discussed thoroughly with your event director and the other judges to ensure complete and common understanding for judging consistency.

Level of Evaluation	Interpretation Level
Exceeds Expectations	Participant demonstrated the performance indicator in an extremely professional manner; greatly exceeds business standards; would rank in the top 10% of business personnel performing this performance indicator.
Meets Expectations	Participant demonstrated the performance indicator in an acceptable and effective manner; meets at least minimal business standards; there would be no need for additional formalized training at this time; would rank in the 70-89 th percentile of business personnel performing this performance indicator.
Below Expectations	Participant demonstrated the performance indicator with limited effectiveness; performance generally fell below minimal business standards; additional training would be required to improve knowledge, attitude and/or skills; would rank in the 50-69 th percentile of business personnel performing this performance indicator.
Little/No Value	Participant demonstrated the performance indicator with little or no effectiveness; a great deal of formal training would be needed immediately; perhaps this person should seek other employment; would rank in the 0-49 th percentile of business personnel performing this performance indicator.



**CORPORATE FINANCE
2020**

JUDGE'S EVALUATION FORM
Association Event 1

Participant: _____

INSTRUCTIONAL AREA
Financial Analysis

ID Number: _____

Did the participant:		Little/No Value	Below Expectations	Meets Expectations	Exceeds Expectations	Judged Score
PERFORMANCE INDICATORS						
1.	Discuss the issuance of stock from a corporation?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
2.	Determine the impact of business decisions on capital market prices?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
3.	Explain the nature of statements of changes in equity?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
4.	Discuss the role of ethics in finance?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
5.	Discuss the analysis of a company's financial situation using its financial statements?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
PRESENTATION						
6.	Demonstrate clarity of expression?	0-1	2-3	4	5	
7.	Organize ideas?	0-1	2-3	4	5	
8.	Show evidence of mature judgment?	0-1	2-3	4	5	
9.	Overall performance: appropriate appearance, poise, confidence, presentation, technique and response to judge's questions	0-1-2	3-4-5	6-7-8	9-10	
TOTAL SCORE						