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**Question 5: Financial Accounting and Financial Statement Analysis****(22 points)**

a)

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

	<b>2005</b>	<b>2006</b>
Cash	2,500	3,000
Accounts receivable	3,660	3,400
Inventories	4,200	4,300
Current assets	10,360	10,700
Current liabilities	4,000	3,000
Current ratio	2.59	3.57

$$\text{Quick ratio} = \frac{\text{Cash} + \text{Marketable securities} + \text{Accounts receivable}}{\text{Current liabilities}}$$

	<b>2005</b>	<b>2006</b>
Cash + Accounts receivable	6,160	6,400
Current liabilities	4,000	3,000
Quick ratio	1.54	2.13

b)

Exchange ratio: 3 Fridgee shares for 2 Stewart shares.

Number of Stewart shares = Common stock / Share's par value = 10,000,000 / 10 = 1,000,000

⇒ Number of Fridgee shares issued: 1,000,000 · 3/2 = 1,500,000

Market price of Fridgee share: 40 CU

⇒ Price paid for the acquisition of Stewart Inc.: 1,500,000 · 40 = 60 millions CU

Fair value of Stewart's net assets (in '000 CU): 61,400 – 7,000 = 54,400

⇒ Goodwill on acquisition (in '000 CU): 60,000 – 54,400 = 5,600

c)

	<b>Fridgee Inc. (carrying amount)</b>	<b>Acquisition (assets and liabilities at fair value)</b>	<b>Combined Entity</b>
Cash	8,000	3,000	11,000
Accounts receivable	7,000	3,400	10,400
Inventories	4,250	5,000	9,250
Held to maturity securities	2,000	10,000	12,000
Property, plant and equipment	24,500	30,000	54,500
Land	8,500	10,000	18,500
Goodwill	-	5,600	5,600
<b>Total assets</b>	<b>54,250</b>	<b>67,000</b>	<b>121,250</b>
Current liabilities	7,500	3,000	10,500
Long term liabilities	7,000	4,000	11,000
Common stock	15,000		
+ additional shares: 1'500'000 · 10 CU =		15,000	30,000
Additional paid in capital + 60'000 – 15'000 =	15,000	45,000	60,000
Retained Earnings	9,750		9,750
<b>Total liabilities and Equity</b>	<b>54'250</b>	<b>67,000</b>	<b>121,250</b>