**Decision-making: methods and tools**

Exercise

The 2014 Balance Sheet of the Ercole Company is reported in the following table.

|  |  |  |  |
| --- | --- | --- | --- |
| **Non current assets** | **31.400** | **Equity** | **50.250** |
| Property, Plant and Equipment | 18.000 | Issued capital | 40.000 |
| Investment property | - | Share premium accounts | - |
| Intangible assets with indefinite useful life  | 1.000 | Revaluation Reserve | 250 |
| Intangible assets with definite useful life  | 4.400 | Other reserves | 4.000 |
| Holdings | 8.000 | Retained earnings | 2.000 |
| Other Financial activities | -- | Net Income/Loss | 4.000 |
| **Current assets** | **52.100** | **Non current liabilities** | **15.750** |
| Receivables and others | 10.400 | Debt in issue | -- |
| Debt to bank | 8.000 |
| Inventories | 6.200 | Other non-current financial liabilities | -- |
| Work in progress on ordination | -- | Risk and charges | 3.750 |
| Funds to personnel | -- |
| Current financial activities | 1.500 | **Current Liabilities** | **17.500** |
| Debt in issue | -- |
| Cash and cash equivalent | 34.000 | Debt to bank | 10.000 |
| **Discontinued operations** | **--** | Debt to suppliers | 6.000 |
|  |  | Other financial current liabilities | 1.500 |
| Tax debt | -- |
| Other current liabilities | -- |
| **Liabilities related to discontinued operations** | **0** |
| **TOTAL ASSETS** | **83.500** | **TOTAL LIABILITIES** | **83.500** |

By reading the Notes to the Financial Statement you also know that:

1. The item *Property, Plant and Equipment* refers to:
* A production plant, value 12.000 k€ at the end of 2014 and residual useful life of 4 years (2015 is included);
* An assembly plant, residual life of 3 years at the end of 2014;
1. The item *Intangible Assets with definite useful life* refers to a single patent, residual useful life of 4 years (2015 is included);
2. *Current debt to banks* refers to a debt started at the beginning of March 2014 (01/03/2014) that will last 12 months. The total amount of borrowing costs (2.250 k€) will be paid at the end of the debt. The whole value accounted in the item *Other current financial liabilities* refers to borrowing costs related to 2014;
3. *Non-current debt to bank* refers to a single debt started at the end of August 2013 (31/08/2012) that will last 5 years. The interest rate is 10% and borrowing costs are paid at the end of the year according to the accrual accounting principle. Borrowing costs related to 2015 have to be accounted in the item “Other non-current financial liabilities”.
4. *Debt to suppliers* accounted at the end of 2014 are paid every three months. Debt to suppliers related to 2014 are paid in January 2015;
5. At the end of October 2012 (31/10/2012), the Ercole Company signed an agreement with the Arch company according to which the Ercole pays a fee to the Arch to use one of its administrative building. The total fee (for 3 years) is 3.600 k€.

Furthermore, during 2015, the following events occurred:

1. The Ercole is planning to buy a packaging plant of the One Company and, for this reason, it decided not to distribute the 2014 Net Income to shareholders.
2. Purchase of raw material (9.000 k€). Average time to pay suppliers is 3 months.
3. Selling of finished goods, realizing revenues equal to 66.000 k€. Average time to collect receivables is 2 months.
4. A client of the Ercole failed during 2015. This client had a debt equal to 2.000 k€ but it was able to pay only the 70% of this amount. The remaining part of the commercial receivable is all collected during 2015.
5. Financial income equal to 1.500 k€.
6. Cost of administrative staff equal to 3.000 k€ while that of employees working in production process is 8.000 k€. A 30% of cost of personnel is stored in *Fund to Personnel*.
7. At the end of the year, the Ercole decided to buy the packaging plant (point 1). The value of the plant, equal to its price, is 10.000 k€ and its useful life is 5 years. Ercole company pays the entire amount by cash. Depreciation will start in 2016. The company also decided to sell the assembly plant (at the end of the year) at a price of 5.000 k€.
8. Total amount of taxes equal to 10.000 k€. Only the 40% of tis amount is paid in 2015.

At the end, the Impairment test, carried out at the end of 2015, reported:

1. a loss of value (250 k€) with respect to the production plant
2. a loss of value (700 k€) with respect to the item *Intangible assets with indefinite useful life*

Please, considering you have to provide the 2015 Balance Sheet, account for the event described above. Furthermore, you are also required to provide the 2015 Income Statement