

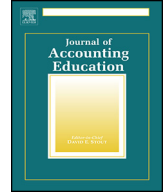


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## Educational Case

# The success story of international additives producer AG: A case study on categorization of investments under IFRS



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## ABSTRACT

International Additives Producer AG (IAP) recently announced ambitious forecasts regarding revenue and operating income to the capital market. These key performance indicators depend on the way IAP's investments are currently accounted for in its consolidated financial statements, a situation that is seriously questioned by the newly appointed auditor. In this context, the case requires the application of the relevant International Financial Reporting Standards (IFRS) regarding the categorization of investments for group reporting purposes. Specifically, Part I of the case requires the application of the control concept of IFRS 10 as well as the classification rules of IFRS 11 for joint arrangements, while Part II of the case introduces the assessment of significant influence according to IAS 28. Throughout the case the consequences of investment categorization on external reporting and related management incentives that arise from the interplay between financial reporting and capital markets, compensation contracts and additional disclosure requirements are discussed.

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## 1. Case

IAP AG expects all-time revenue record – main driver is US growth

**Frankfurt.** The International Additives Producer (IAP) AG is set to open a new chapter of its success story. For the fifth year in a row, the company will grow in terms of revenue and operating income (EBIT). This was announced at yesterday's quarterly press and analysts' conference by CEO Robert Berger who expects IAP to top 1.5 bn Euros annual revenues for the first time.

The top executive is "the face" of IAP's success: Since he took over as CEO in 2008, one sales record has been achieved after another. Importantly, as Michael Meyer, IAP's CFO, pointed out yesterday, "...our growth is profitable. Looking ahead, we will probably achieve an operating income of more than 250 m Euro in the fiscal year 2014, an increase of about 10% compared to last year."

The main driver of the expected success for 2014 is the growth in the US market, explained CEO Berger. "For the first time, we will be among the top ten suppliers for cosmetic ingredients in the US. Year to date, we are well ahead of prior year and budget with a revenue of 330 m US dollars in the first three quarters. Our US business is becoming more and more important to our overall performance." In this context, Berger also emphasized the cooperation with Paul Smith, Founder and CEO of Star-Light-Ingredients LLC, IAP's sole US subsidiary.

"Without his market expertise and the fruitful collaboration, the US market success would never have been possible," Berger said while shaking hands with his partner.



IAP-CEO Robert Berger thanked his partner Paul Smith for the successful cooperation on the US market

Finally, CFO Meyer incited curiosity among analysts: "As you know, the 2014 year-end financials are the first ones audited by our newly appointed auditor, *ProTrust*. We had to make this change to one of the international *top-5* auditors due to the growing complexity of our global organization. *ProTrust* is currently involved in intense pre-audit activities in order to enable us to provide our financial information to the capital markets as early as possible next spring. We look forward to announcing the financial results in March 2015."

*Frankfurt Business Times*, October 10, 2014, p. 27

### 1.1. Background of the case

International Additives Producer (IAP) AG<sup>1</sup> is a global supplier of raw materials and ingredients for the cosmetics industry. IAP is headquartered in Frankfurt, Germany, and stock-listed since 2007. Therefore, the company must prepare and publish its consolidated financial statements according to IFRS.

<sup>1</sup> Characters, names, dates, and locations are fictitious and solely devised for this case.

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