

Burton Howard, CFA, is an equity analyst with Maplewood Securities. Howard is preparing a research report on Confabulated Materials, SA, a publicly traded company based in France that complies with IFRS 9. As part of his analysis, Howard has assembled data gathered from the financial statement footnotes of Confabulated's 2018 Annual Report and from discussions with company management. Howard is concerned about the effect of this information on Confabulated's future earnings.

Information about Confabulated's investment portfolio for the years ended 31 December 2017 and 2018 is presented in Exhibit 1. As part of his research, Howard is considering the possible effect on reported income of Confabulated's accounting classification for fixed income investments.

Exhibit 1:**Confabulated's Investment Portfolio (€ Thousands)**

Characteristic	Bugle AG	Cathay Corp	Dumas SA
Classification	FVPL	FVOCI	Amortized cost
Cost*	€25,000	€40,000	€50,000
Market value, 31 December 2017	29,000	38,000	54,000
Market value, 31 December 2018	28,000	37,000	55,000

* All securities were acquired at par value.

In addition, Confabulated's annual report discusses a transaction under which receivables were securitized through a special purpose entity (SPE) for Confabulated's benefit.

Practice Problem

Q. Confabulated's special purpose entity is *most likely* to be:

- A. held off-balance sheet.
- B. consolidated on Confabulated's financial statements.
- C. consolidated on Confabulated's financial statements only if it is a "qualifying SPE."

Solution
 **Correct**

Correct Answer Your Answer

A

B

C

✓

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Not Selected

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classification which has been eliminated) do not have to be consolidated.

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