

 **Incorrect**

BetterCare Hospitals, Inc. operates a chain of hospitals throughout the United States. The company has been expanding by acquiring local hospitals. Its largest acquisition, that of Statewide Medical, was made in 2001 under the pooling of interests method. BetterCare complies with US GAAP.

BetterCare is currently forming a 50/50 joint venture with Supreme Healthcare under which the companies will share control of several hospitals. BetterCare plans to use the equity method to account for the joint venture. Supreme Healthcare complies with IFRS and will use the proportionate consolidation method to account for the joint venture.

Erik Ohalin is an equity analyst who covers both companies. He has estimated the joint venture's financial information for 2018 in order to prepare his estimates of each company's earnings and financial performance. This information is presented in Exhibit 1.

**Exhibit 1:**
**Selected Financial Statement Forecasts for Joint Venture (\$ Millions)**

Year ending 31 December	2018
Revenue	1,430
Operating income	128
Net income	62
31 December	2018
Total assets	1,500
Shareholders' equity	740

Supreme Healthcare recently announced it had formed a special purpose entity through which it plans to sell up to \$100 million of its accounts receivable. Supreme Healthcare has no voting interest in the SPE, but it is expected to absorb any losses that it may incur. Ohalin wants to estimate the impact this will have on Supreme Healthcare's consolidated financial statements.

Correct Answer

Your Answer

A

B

C

X

Confidence Level:

Not Selected

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- A. a higher revenue for 2018.
- B. the same cash balance at 31 December 2018.
- C. the same accounts receivable balance at 31 December 2018.

**Solution**

**A is correct.** Revenue will not be higher for 2018 because Supreme Healthcare controls the SPE and thus eliminates intra-entity transactions and balances in consolidation. Consolidated revenue will thus present the results as if this transaction did not occur.

**Incorrect**

Correct Answer    Your Answer

A	
B	X
C	

Confidence Level:  
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