POLITECNICO
MILANO 1863

Accounting Finance & Control

Financial Statement Consolidation

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Agenda

- What is consolidation
  - Group of companies
- When it is required
  - Notion of control
- How to consolidate
  - Pre-consolidation adjustments
  - Consolidation adjustments

Why?

to see the overall result

Agenda

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What is consolidation

coherent & comprehensive infromation for shareholders and stakeholders

The consolidated financial statement combines a set of financial documents

- Balance sheet
- Income statement
- Cash flow statement
- Statement of changes in equity
- Notes to the financial statements

of separated legal entities that are controlled by a parent company (hence a **group**) and present them as a unique entity.

A consolidated financial statement is the financial statement of a **group** of companies in which assets, liabilities, revenues, costs and cash flows of each organization inside the group are presented as a unique entity

It provides external accountability for a group rather than for a single company.

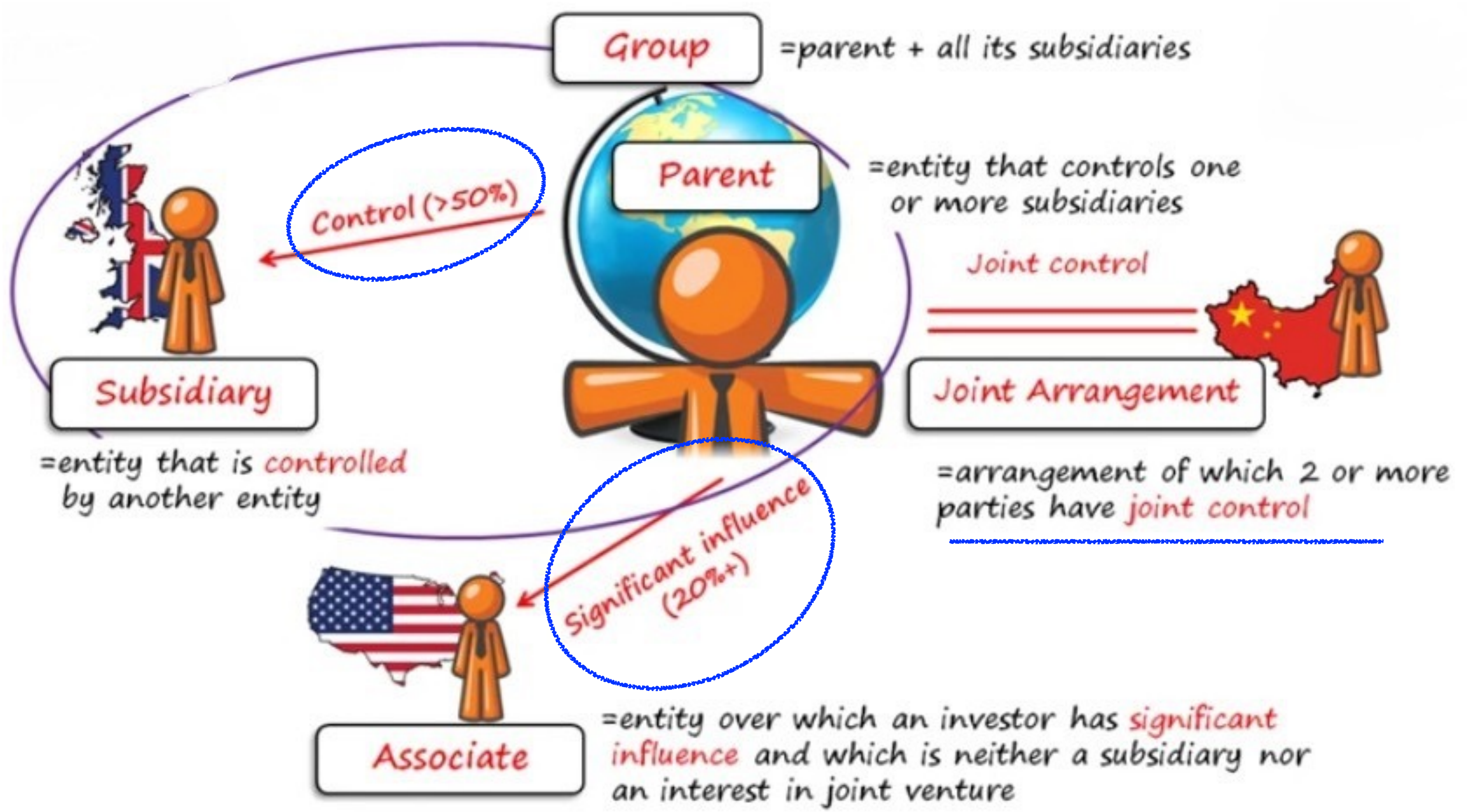
The definition of a group

- A group of companies is an economic entity formed by a set of companies (separate legal entities) which are either companies controlled by the same company, or the controlling company itself.

- Different possible types of relationships

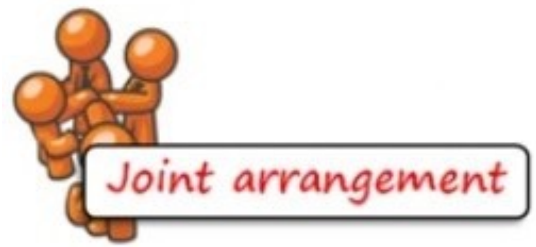
the most closed relationship

The definition of a group



Source: IFRS Box

Type of investments



Criteria	Control	Significant influence	Joint control
Example of indicator	> 50%	> 20%	n/a
Accounting method	Full consolidation	Equity method	Depends on type

Line by Line / it is a part of our company

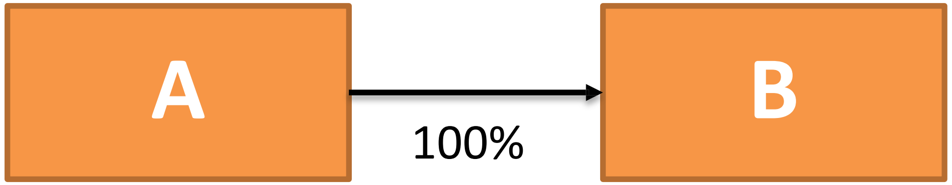
Other investments → Financial instruments (IFRS 9 / 39)

surplus or surloss in the final statement (considered as an inverstment

Just The Result

Why group accounting is needed?

- To provide more reliable information about the **composition of assets and liabilities** of the group



A			
Assets		Liabilities	
PPE	200	Equity	300
Equity invest.	100	Debt	100
Cash	100		

B'			
Assets		Liabilities	
PPE	150	Equity	100
Inventories	100	Debt	150

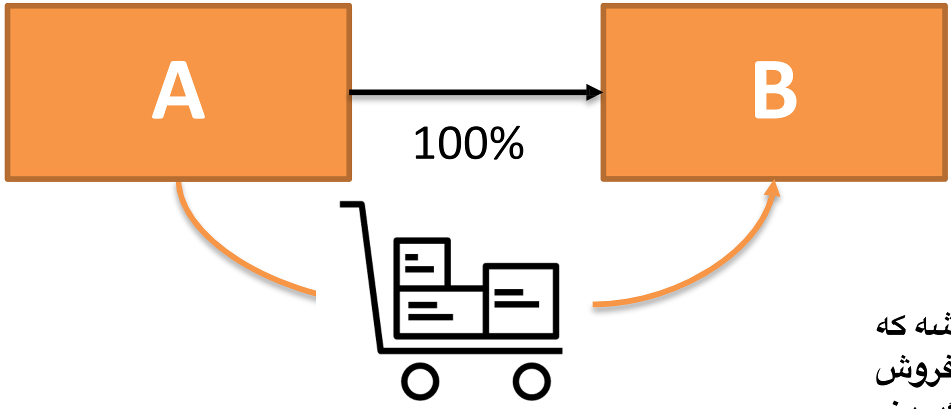
Or…

B''			
Assets		Liabilities	
Cash	250	Equity	100
		Debt	150

Sold the company so only Cash

Why group accounting is needed?

- To provide more reliable information about the **income of the group**



وقتی که به همدیگه میفروشن باعث میشه که
دوبل بشه توی صورتهای مالی و باید فروش
یک طرف رو فقط برای خارجیا در نظر بگیرین.

A sells to B finished goods for 10.000€, cost of goods sold is 6.000€ and profit is **4.000€**

The purchased goods are not sold by B, but they are recorded in the inventory account that increases of 10.000€

From a group point of view, an entity cannot recognize revenue (and related profit) from sales to itself; all sales must be to external entities.

Definition of a group – FCA example

Fiat annual report is different from FCA group consolidated annual report

Details about consolidation (annual report)

FIAT CHRYSLER AUTOMOBILES

SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

Subsidiaries

Subsidiaries are entities over which the Group has control. Control is achieved when the Group has power over the investee, when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of the investor's returns. Subsidiaries are consolidated on a line by line basis from the date which control is achieved by the Group. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The Group recognizes a non-controlling interest in the acquiree on a transaction-by-transaction basis, either at fair value or at the non-controlling interest's share of the recognized amounts of the acquiree's identifiable net assets. Net profit or loss and each component of Other comprehensive income/(loss) are attributed to Equity attributable to owners of the parent and to Non-controlling interests. Total comprehensive income/(loss) of subsidiaries is attributed to Equity attributable to the owners of the parent and to the non-controlling interest even if this results in a deficit balance in Non-controlling interests.

Changes in the Group's ownership interests in a subsidiary that do not result in the Group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of Equity attributable to owners of the parent and Non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the carrying amount of the non-controlling interests and the fair value of the consideration paid or received in the transaction is recognized directly in Equity attributable to the owners of the parent.

Consolidates IS

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Consolidated Income Statement

(in € million, except per share amounts)

Note: Minority interest or non-controlling interest refers to the percentage of the shares of subsidiaries that are not owned by the parent company.

	Note		2018		2017		2016
				Years ended December 31,			
Net revenues	4	€	110,412	€	105,730	€	105,798
Cost of revenues			95,011		89,710		90,927
Selling, general and other costs			7,318		7,177		7,388
Research and development costs	5		3,051		2,903		2,930
Result from investments:			235		399		310
Share of the profit of equity method investees	12		*240*		*400*		*308*
Other income from investments			*(5)*		*(1)*		*2*
Reversal of a Brazilian indirect tax liability	22		—		895		—
Gains on disposal of investments			—		76		13
Restructuring costs			103		86		68
Net financial expenses	6		1,056		1,345		1,858
Profit before taxes			**4,108**		**5,879**		**2,950**
Tax expense	7		778		2,588		1,237
Net profit from continuing operations			**3,330**		**3,291**		**1,713**
Profit from discontinued operations, net of tax	3		302		219		101
Net profit		**€**	**3,632**	**€**	**3,510**	**€**	**1,814**
Net profit attributable to:							
Owners of the parent		€	3,608	€	3,491	€	1,803
Non-controlling interests			24		19		11
		€	3,632	€	3,510	€	1,814
Net profit from continuing operations attributable to:							
Owners of the parent		€	3,323	€	3,281	€	1,708
Non-controlling interests			7		10		5
		€	3,330	€	3,291	€	1,713

+

بخشی که کنترلش
دست ما نیست

Details about consolidation (annual report)

FIAT CHRYSLER AUTOMOBILES

The following significant transactions with non-controlling interests occurred:

2018

- There were no significant transactions with non-controlling interests.

2017

- Disposal of the 16.0 percent of the Group's interest in FMM Pernambuco to the minority interest in January 2017, and subsequent loss of control during the third quarter of 2017, resulting in a gain on disposal of €19 million.

2016

- There were no significant transactions with non-controlling interests.

consolidated by equity method

فروش سهام رو توی financial results میبینیم.

Note: Profit/loss from investments (e.g. the profit or loss on the disposal of investments) are recognized in the income statement, financial activities.

Minority interest (سهم اقلیت)
In accounting, minority interest is the portion of a subsidiary corporation's stock that is not owned by the parent corporation. The magnitude of the minority interest in the subsidiary company is generally less than 50% of outstanding shares, or the corporation would generally cease to be a subsidiary of the parent.

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When to consolidate (1)

Note: If these three conditions exist simultaneously, then company A has control over company B; there is control if at the same time I have power, I have exposure to variable return
AND the ability to affect return.

IFRS 10 regulates the consolidation process.

It is necessary to prepare consolidated financial statements when there is **CONTROL** between two parties (A exerts control over B).

According to IAS/IFRS control exists when

not only percentage, but also :

more than 50 mean to have ability to execute the power

decisonal **Power**	Substantive rights to direct "relevant activities" **strategy & OPS** Voting rights or practical ability to exercise the rights
Exposure (rights) to variable returns	Potential variability to positive or negative returns (broad definition of returns)
Ability of the investor to affect its returns through its power	تصمیمات مدیریتی Need to determine whether the "decision-maker" is an agent of another investor

When to consolidate (2)

In some cases, rather than control there can be **JOINT CONTROL – JOINT ARRANGEMENTS (IFRS 11)**.

A joint arrangement can be of two types

- **Joint venture** → a third entity is constituted and jointly controlled by two organizations. The joint controlling companies do not have the rights on individual assets

- **Joint operation** → there is not a third entity or there is a third entity by the joint controlling companies have the rights on individual assets

Both subsidiaries and joint arrangements are disclosed in concolidated annual reports, but the approach to consolidation is different

It's essential to note that a 'separate vehicle' refers to separately identifiable financial structure.
In summary, a joint operation is like teaming up for a specific task or mission, while a joint venture is a more long-term partnership where you work together to create and run something, like a business.

When to consolidate (3)

separate legal entity

How to define …

Is the joint arrangement structured through a separate vehicle?

No → Joint operation

Yes

شفاف نوشتن مسیولیت هر طرف و حقوق هر ساید

Does the legal form of the separate vehicle give the parties rights to the assets and obligations for the liabilities relating to the arrangement?

Yes → Joint operation

No

انگار یک انتیتی جدید ساخته میشه کلا که همه چی مشترکه توش

Do the terms of the contractual arrangement give the parties rights to the assets and obligations for the liabilities relating to the arrangement?

Yes → Joint operation

No

Do other facts and circumstances give the parties rights to the assets and obligations for the liabilities relating to the arrangement?

Yes → Joint operation

No

Joint venture

equity method

Joint operation

Line by Line

When to consolidate: control vs joint venture

FIAT CHRYSLER AUTOMOBILES

Subsidiaries

Subsidiaries are entities over which the Group has control. Control is achieved when the Group has power over the investee, when it is exposed to, or has rights to, variable returns from its involvement with the investee, and has the ability to use its power over the investee to affect the amount of the investor's returns. Subsidiaries are consolidated on a line by line basis from the date which control is achieved by the Group. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The Group recognizes a non-controlling interest in the acquiree on a transaction-by-transaction basis, either at fair value or at the non-controlling interest's share of the recognized amounts of the acquiree's identifiable net assets. Net profit or loss and each component of Other comprehensive income/(loss) are attributed to Equity attributable to owners of the parent and to Non-controlling interests. Total comprehensive income/(loss) of subsidiaries is attributed to Equity attributable to the owners of the parent and to the non-controlling interest even if this results in a deficit balance in Non-controlling interests.

Interests in Joint Ventures and Associates

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investees but does not have control or joint control over those policies.

Joint ventures and associates are accounted for using the equity method of accounting from the date joint control and significant influence is obtained. On acquisition of the investment, any excess of the cost of the investment and the Group's share of the net fair value of the investee's identifiable assets and liabilities is recognized as goodwill and is included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the Group's share of the investee's profit/(loss) in the acquisition period.

Details about consolidation (annual report)

FIAT CHRYSLER AUTOMOBILES

3. SCOPE OF CONSOLIDATION

The following table sets forth a list of the principal subsidiaries of FCA, which are grouped by our reportable segments, as well as our holding and other companies:

Name	Country	Percentage Interest Held
NAFTA		
FCA US LLC	USA (Delaware)	100.00
FCA Canada Inc.	Canada	100.00
FCA Mexico, S.A. de C.V.	Mexico	100.00
LATAM		
FCA Fiat Chrysler Automoveis Brasil LTDA	Brazil	100.00
FCA Automobiles Argentina S.A.	Argentina	100.00
Banco Fidis S.A.	Brazil	100.00
APAC		
Chrysler Group (China) Sales Limited	People's Republic of China	100.00
FCA Japan Ltd.	Japan	100.00
FCA Australia Pty Ltd.	Australia	100.00
FCA Automotive Finance Co. Ltd.	People's Republic of China	100.00
Alfa Romeo (Shanghai) Automobiles Sales Co. Ltd.	People's Republic of China	100.00
EMEA		
FCA Italy S.p.A.	Italy	100.00
FCA Melfi S.r.l.	Italy	100.00
FCA Poland Spólka Akcyjna	Poland	100.00
FCA Powertrain Poland Sp. z o.o.	Poland	100.00
FCA Serbia d.o.o. Kragujevac	Serbia	66.67
FCA Germany AG	Germany	100.00
FCA France S.A.S.	France	100.00
Fiat Chrysler Automobiles UK Ltd.	United Kingdom	100.00
Fiat Chrysler Automobiles Spain S.A.	Spain	100.00
Fidis S.p.A.	Italy	100.00

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Consolidation process: pre-consolidation adjustments

1. Collect the individual companies' financial statements;

2. Make them **uniform** as concerns:

   - the accounting period they refer to (differences between reporting dates cannot be longer than 3 months);

   - the accounting policies;

     استانداردهای حسابداری کشورها متفاوته. برای داراییها و استهلاک از یک شیوه استفاده بشه.

   - the reporting currency (if necessary, translation must take place);

     1. avg of the period rate ==> constant transactions
     2. exact rate of each date ==> inconsistant

   - the layout.

3. Combine assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries; each item shall be added according to its accounting category to determine the **aggregate financial statement.**

The aggregate financial statement does not show the real situation because in many cases they have duplications (e.g. intragroup transactions …).

Then consolidated

Pre-consolidation adjustments: closing period

- When the closing date of the financial statements of one or more subsidiaries is different from that of the parent company, the subsidiary prepares **interim financial statements** at the closing date of the parent company

- When this is not feasible, the closing date of the financial statements of the subsidiary and the parent company is allowed to be different on condition that:
  - the difference between the closing dates does not exceed three months;
  - the duration of the financial year and the difference between the closing dates remain constant over time;
  - adjustments are made for significant transactions and events which occur between the closing date of the subsidiary and the closing date of the parent company.

Pre-consolidation adjustments: closing period

Non-current liabilities		**23,510**	**24,389**	**18,908**
Short-term borrowings	18	5,027	4,530	3,447
Trade accounts payable	21.1	5,314	4,539	4,184
Income taxes		538	763	428
Current provisions	19	369	404	352
Other current liabilities	21.2	5,585	4,753	4,399
Current liabilities		**16,833**	**14,989**	**12,810**
Total liabilities and equity		**74,300**	**69,755**	**59,616**

(1) The financial statements as of December 31, 2017 and December 31, 2016 have been restated to reflect the retrospective application with effect from January 1, 2016 of IFRS 9 Financial Instruments. See Note 1.2.
(2) The financial statements as of December 31, 2017 have been restated to reflect the definitive allocation of the purchase price of Christian Dior Couture. See Note 2.

24 Financial Documents - December 31, 2018

Preconsolidation adjustments: closing period

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

☐ REGISTRATION STATEMENT PURSUANT TO SECTIONS 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2018

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 001-36675

Fiat Chrysler Automobiles N.V.
(Exact Name of Registrant as Specified in Its Charter)

The Netherlands
(Jurisdiction of Incorporation or Organization)

Pre-consolidation adjustments: accounting policy

local law

- When one or more subsidiaries use different accounting policies than those adopted by the group for similar transactions, then appropriate pre-consolidation adjustments are made as part of the consolidation process. Operationally this can be achieved:

  - By applying in the subsidiaries' individual accounts the accounting policies adopted by the group, to the extent that these are not in contrast with local law;

  - By requiring the subsidiaries to provide individual statements for the consolidation process appropriately adjusted to be consistent with the accounting policies used for the consolidated financial statements.

Pre-consolidation adjustments: accounting policy

- Example: **R&D costs**

    - Under US GAAP, R&D costs are expensed as incurred

    - Under IFRS research costs are expensed, like US GAAP, but, unlike US GAAP, IFRS has broad-based guidance that requires companies to capitalize development expenditures, when certain criteria are met

Pre-consolidation adjustments: reporting currency

- If the scope of consolidation includes companies that keep their accounts in a currency that is different from the reporting currency of the consolidated financial statements, it is necessary to translate financial statements denominated in currencies other than the reporting currency of the consolidated financial statements.

  - Income statement items (including the profit for the year) are translated at:
    - The effective exchange rate at the date of each transaction, or
    - The average exchange rate of the financial year

  - Balance sheet items, except for the profit for the year, are translated at the exchange rate at the reporting ("closing") date of the consolidated financial statements

Pre-consolidation adjustments: reporting currency

- If the rate used for translating income statement values does not coincide with the one used for the balance sheet, it causes a `translation difference' to be classified in a special owners' equity reserve named 'translation reserve'.

Coca-Cola Journey™ Locations Investors | The Coca-Cola Company

Translation and Remeasurement

We translate the assets and liabilities of our foreign subsidiaries from their respective functional currencies to U.S. dollars at the appropriate spot rates as of the balance sheet date. Generally, our foreign subsidiaries use the local currency as their functional currency. Changes in the carrying value of these assets and liabilities attributable to fluctuations in spot rates are recognized in foreign currency translation adjustment, a component of AOCI. Refer to Note 15. Income statement accounts are translated using the monthly average exchange rates during the year.

Note: consolidated financial statements are reported based on the currency of the country where the headquarter of the parent company is located.

Pre-consolidation adjustments: aggregation

The aggregation step consists in combining assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries; each item shall be added according to its accounting category

A			
Assets		Liabilities	
Cash	300	Equity	400
Other assets	600	Debt	600
Investments	100		

B			
Assets		Liabilities	
Plant	100	Equity	100

	A	**B**	**Aggregated**
Plant	-	100	100
Cash	300		300
Other assets	600		600
Investments	100		100
Total Assets	**1.000**	**100**	**1.100**
Owners' equity	400	100	500
Liabilities	600		600
Total Liabilities and equity	**1.000**	**100**	**1.100**

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GoodWill calculated only once, in 1st year,
from the subsequent year, it'll be calculated based on impairment test
its value will decrease over year, when it become zero, it shows that the compnany is totally merged and the main company has got the whole advantage. So, there will be uplifts in revenue

Goodwill is asset => convert to value (Revenue)

Consolidation process: consolidation adjustments

4. Offset (eliminate) the carrying amount of the parent's investment in each subsidiary against the parent's proportionate share of equity of each – subsidiary

5. Recognise and measure the share of equity attributable to other shareholders in non wholly-owned subsidiaries (i.e. non-controlling interests)

6. Eliminate any intra-group assets, liabilities, equity, income, expenses and cashflows relating to transactions between consolidated entities

7. Calculate and allocate the group's and non-controlling interests' results

8. Prepare the final consolidated financial statements

Consolidation process: offset of the investment

- The first consolidation adjustment consists in offsetting (eliminating) the carrying amount of the parent's investment in each subsidiary against the parent's proportionate share of equity of each subsidiary

- Case 1
  - acquisition involves **100 per cent** of the subsidiary's shares (there are no non-controlling interests)
  - there are no infra-group transactions
  - value of the **investment matches the book value** of the subsidiary’s equity

No GoodWill

A			
Assets		**Liabilities**	
Cash	300	Equity	400
Other assets	600	Debt	600
Investments	100		

B			
Assets		**Liabilities**	
Plant	100	Equity	100

Only when you have 100% this happen

Consolidation process: offset of the investment

The value of the investment matches the book value of the subsidiary's equity

- Our purpose is to represent the situation as if A had acquired the assets and liabilities of B directly and in order to do so, we need to offset the item 'Investments' against B's equity value
- Since the investment in B (i.e. the accounting item "Investments") already incorporates the value of B's assets and liabilities, we need to make sure that we are not counting those values twice

	A	B	Aggregated	Elimination of investment
Plant	-	100	100	
Cash	300		300	
Other assets	600		600	
Investments	100		100	(100)
Total Assets	**1.000**	**100**	**1.100**	**(100)**
Owners' equity	400	100	500	(100)
Liabilities	600		600	
Total Liabilities	**1.000**	**100**	**1.100**	**(100)**

Consolidation process: consolidation adjustments

4. Offset (eliminate) the carrying amount of the parent's investment in each subsidiary against the parent's proportionate share of equity of each – subsidiary;

5. Recognise and measure the share of equity attributable to other shareholders in non wholly-owned subsidiaries (i.e. non-controlling interests);

6. Eliminate any intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between consolidated entities;

7. Calculate and allocate the group's and non-controlling interests' results;

8. Prepare the final consolidated financial statements.

Consolidation process: consolidated financial statement

The value of the investment matches the book value of the subsidiary's equity

	A	B	Aggregated	Elimination of investment	Consolidated SFP
Plant	-	100	100		100
Cash	300		300		300
Other assets	600		600		600
Investments	100		100	(100)	-
Total Assets	**1.000**	**100**	**1.100**	**(100)**	**1.000**
Owners' equity	400	100	500	(100)	400
Liabilities	600		600		600
Total Liabilities	**1.000**	**100**	**1.100**	**(100)**	**1.000**

Consolidation process: offset of the investment

The value of the investment does not match the book value of the subsidiary’s equity

- In most cases the cost of the investment **does not match** the book value of the subsidiary's equity.

- If we go back to case 1…

A			
Assets		**Liabilities**	
Cash	300	Equity	400
Other assets	600	Debt	600
Investments	100		

B			
Assets		**Liabilities**	
Plant	100	Equity	100

This situation is not likely to happen in reality!

Consolidation process: offset of the investment

The value of the investment does not match the book value of the subsidiary's equity

- The purchase price paid for the investment is ideally attributable to the following components:

Components		
1	+	Book value of subsidiary's equity
2	+/-	Changes in assets' and liabilities' values → **impairment test**
3	-/+	Tax effects on those changes
4	+/-	Goodwill → **investment - book value**

Consolidation process: offset of the investment

The value of the investment does not match the book value of the subsidiary’s equity

- The purchase price paid for the investment is ideally attributable to the following components:

Components		
1	+	Book value of subsidiary’s equity
2	+/-	Changes in assets’ and liabilities’ values
3	-/+	Tax effects on those changes
4	+/-	Goodwill

For **unrecognized surpluses** in assets' and liabilities' values we add the surpluses (positive or negative) to the subsidiary's assets and liabilities values, so that all the subsidiary's assets and liabilities are recognized at **their fair values** at the time control is acquired

Goodwill refers to the purchase cost, minus the fair market value of the tangible assets, the liabilities, and the intangible assets that you're able to identify.

Consolidation process: offset of the investment

The value of the investment does not match the book value of the subsidiary's equity

- The purchase price paid for the investment is ideally attributable to the following components:

For example, if the book value of PP&E of company B is 100, but its fair value is 80, this
difference between the book and fair values is recognized as a loss in the consolidated income
statement (financial activities) and lower the EBT, thus decreasing taxes

Components		
1	+	Book value of subsidiary's equity
2	+/-	Changes in assets' and liabilities' values
3	-/+	Tax effects on those changes
4	+/-	Goodwill

The **tax effects** on such surpluses must be considered. The differences between the book and fair values of the recognized items may create 'temporary differences' that will give rise to (or will lower) **taxes in the future**. We want to recognize such future obligation (or benefit) though the separate recognition of deferred tax liabilities (or assets)

Consolidation process: offset of the investment

The value of the investment does not match the book value of the subsidiary's equity

- The purchase price paid for the investment is ideally attributable to the following components:

Components		
1	+	Book value of subsidiary's equity
2	+/-	Changes in assets' and liabilities' values
3	-/+	Tax effects on those changes
4	+/-	Goodwill

The difference between (i) the cost of acquisition and (ii) the parent's interest in the fair value of the subsidiary's net assets/ liabilities at the acquisition date must be recorded in the following way:

a) **If positive** (price paid > fair value of equity attributable to the parent), it must be included as an asset, the so called **'goodwill'**, in the consolidated financial statements;

b) **If negative** (price paid < fair value of equity attributable to the parent), estimates of the fair values of assets/ liabilities of the subsidiary should be reviewed; the negative difference - if still existing - must be allocated to the income statement as a gain. gain (financial activities)

each year impairment test to goodwill ?????

LVMH to Gain Control of Dior After $13 Billion Arnault Deal

French billionaire Bernard Arnault moved to consolidate control over Christian Dior for about 12.1 billion euros ($13.2 billion), folding the fashion house's operations into the LVMH luxury empire in one of his biggest transactions.

LVMH rose as much as 4.9 percent in Paris trading, while Dior gained as much as 13 percent.

Dior investors can choose payment in cash or stock of Hermes, using shares in the rival Paris-based luxury company that the Arnault family received in 2014 after a controversial effort by LVMH to build a stake.

LVMH 2017 Dior Acquisition Case

CONSOLIDATED BALANCE SHEET

ASSETS *(EUR millions)*	Notes	**2017**	**2016**
Brands and other intangible assets	3	13,714	13,335
Goodwill	4	16,514	10,401
Property, plant and equipment	6	13,206	12,139
Investments in joint ventures and associates	7	639	770
Non-current available for sale financial assets	8	789	744
Other non-current assets	9	868	777
Deferred tax	27	1,738	2,058
Non-current assets		**47,468**	**40,224**
Inventories and work in progress	10	10,908	10,546
Trade accounts receivable	11	2,737	2,685
Income taxes		780	280
Other current assets	12	2,919	2,343
Cash and cash equivalents	14	3,738	3,544
Current assets		**21,082**	**19,398**
Total assets		**68,550**	**59,622**

LVMH 2017 Dior Acquisition Case

Movements in property, plant and equipment during the fiscal year break down as follows:

Gross value *(EUR millions)*	Vineyard land and producing vineyards	Land and buildings	Investment property	Leasehold improvements, machinery and equipment			Assets in progress	Other tangible fixed assets	Total
				Stores	Production, logistics	Other			
As of December 31, 2016	**2,580**	**4,709**	**908**	**6,875**	**2,225**	**1,230**	**958**	**1,851**	**21,336**
Acquisitions	9	150	-	556	157	85	800	132	1,889
Change in the market value of vineyard land	(35)	-	-	-	-	-	-	-	(35)
Disposals and retirements	(3)	(79)	-	(341)	(77)	(105)	(13)	(16)	(634)
Changes in the scope of consolidation	-	679	-	840	96	52	67	30	1,764
Translation adjustment	(19)	(210)	(59)	(529)	(46)	(68)	(33)	(48)	(1,012)
Other movements, including transfers	6	263	(30)	488	217	92	(992)	(17)	27
As of December 31, 2017	**2,538**	**5,512**	**819**	**7,889**	**2,572**	**1,286**	**787**	**1,932**	**23,335**

LVMH 2017 Dior Acquisition Case

Note: Share capital is not changed because we should exclude both the investment equity of the parent company and the equity of the acquired company in the consolidated BS.

LIABILITIES AND EQUITY *(EUR millions)*	Notes	2017	2016
Share capital	15.1	152	152
Share premium account	15.1	2,614	2,601
Treasury shares and LVMH share-settled derivatives	15.2	(530)	(520)
Cumulative translation adjustment	15.4	357	1,165
Revaluation reserves		1,472	1,049
Other reserves		19,658	17,965
Net profit, Group share		5,129	3,981
Equity, Group share		28,852	26,393
Minority interests	17	1,408	1,510
Equity		**30,260**	**27,903**

دو راه هست.
۱. بیایم صد درصد آ و صد در صد ب رو جمع کنیم و یک سهام اقلیت بذاریم یا
۲. بیایم درصدی جمع کنیم یعنی ۱۰۰ درصد آ و ۸۰ درصد ب رو جمع کنیم و دیگه سهام اقلیت نداشته باشیم.

راه دوم کمتر استفاده میشه. ولی نفهمیدم چرا

LVMH 2017 Dior Acquisition Case

Long-term borrowings	18	7,046	3,932
Non-current provisions	19	2,474	2,342
Deferred tax	27	3,910	4,137
Other non-current liabilities	20	9,857	8,498
Non-current liabilities		**23,287**	**18,909**
Short-term borrowings	18	4,530	3,447
Trade accounts payable	21.1	4,540	4,184
Income taxes		763	428
Current provisions	19	404	352
Other current liabilities	21.2	4,766	4,399
Current liabilities		**15,003**	**12,810**
Total liabilities and equity		**68,550**	**59,622**

Снимок экрана

LVMH 2017 Dior Acquisition Case

18.2. Analysis of gross borrowings

(EUR millions)	2017	2016	2015
Bonds and Euro Medium Term Notes (EMTNs)	6,557	3,476	4,202
Finance and other long-term leases	296	342	131
Bank borrowings	193	114	178
Long-term borrowings	**7,046**	**3,932**	**4,511**
Bonds and Euro Medium Term Notes (EMTNs)	1,753	1,377	710
Finance and other long-term leases	21	10	6
Bank borrowings	340	291	263
Commercial paper	1,855	1,204	2,281
Other borrowings and credit facilities	408	330	277
Bank overdrafts	120	207	205
Accrued interest	33	28	27
Short-term borrowings	**4,530**	**3,447**	**3,769**
Total gross borrowings	**11,576**	**7,379**	**8,280**

Consolidation Process: Offset of the Investment

The value of the investment does not match the book value of the subsidiary's equity

Case 2 Mickey - Mouse

On 31 December X company MICKEY buys 100% of shares in company MOUSE. The cost of the investment is **2.700**. The balance sheet of the two companies at the date of the acquisition is reported in the following table:

	Mickey	**Mouse**
Non-current assets		
PPE	1.000	1.500
Goodwill		
Other intangible assets	3.000	2.000
Deferred tax assets		
Investments	2.700	
Total Assets	**6.700**	**3.500**
Owners' equity		
Common stock	3.000	1.500
Retained earnings	600	500
Non-controlling interests		
Deferred tax liabilites		
Current and non-current liabilities	3.100	1.500
Total Liabilities and equity	**6.700**	**3.500**

On the acquisition date, the fair value of the assets and liabilities of MOUSE equals their book value, except for plant, whose fair value is **1.000** higher that the carrying amount, and provisions, whose fair value is **200** higher than the book value.

The difference between the cost of the investment and owners' equity is recorded as goodwill.

Consider that the tax rate applied by the two companies is **50%**.

- reevaluating both assets and liabilities
- define the goodwill
- deffered tax assets and liabilities

Consolidation process: offset of the investment

The value of the investment does not match the book value of the subsidiary's equity

		Mickey	Mouse	Aggregated	Elimination of investment	Consolidated SFP
	Non-current assets					
	PPE	1.000	1.500	2.500	1.000 [1]	3.500
	Goodwill			-	300 [4]	300
Plus	Other intangible assets	3.000	2.000	5.000		5.000
(from L.)	Deferred tax assets			-	100 [3]	100
	Investments	2.700		2.700	1st (2.700) [2]	-
	Total Assets	**6.700**	**3.500**	**10.200**	**(1.300)**	**8.900**
	Owners' equity					
	Common stock	3.000	1.500	4.500	(1.500) [2]	3.000
	Retained earnings	600	500	1.100	(500) [2]	600
Minus	Non-controlling interests			-		-
(from A.)	Deferred tax liabilites			-	500 [3]	500
	Current and non-current liabilities	3.100	1.500	4.600	200 [1]	4.800
	Total Liabilities and equity	**6.700**	**3.500**	**10.200**	**(1.300)**	**8.900**

1 Recognition of surplus on PPE and provisions [1.000 and 200, respectively]

2 Elimination of investment [2.700] and subsidiary's equity [1.500+500 = 2.000]

3 Recognition of deferred tax liabilities [1.000x0,5 = 500] and deferred tax assets [200x0,5 =100]

4 Recognition of goodwill = 300 = 2700 - 2000 + 100 - 500 => the asset revaluation is added before

Recognition of goodwill = purchase price [2700] – book value of subsidiary's equity [2000] – increase in PP&E's value [1000] + deferred tax liabilities [500] + decrease in provision's value [200] – deferred tax assets [100] = 300

The first year of acquision, we do the revaluation of assets and liabilitiies

Full or Line by Line consolidation => Joint Operation & Subsidiary

Consolidation process: non-controlling interests

- Non-controlling interests arises when a subsidiary is not wholly controlled

- For example, if a parent owns 85 per cent of a subsidiary, it has to **consolidate 100 per cent** of the subsidiary's net assets and results and report **non-controlling interests of 15 per cent**.

- With regard to the measurement of the non-controlling interests the investor may choose to measure a non-controlling interest in the investee, at the acquisition date, according to two approaches

  - at fair value – the so called **full goodwill accounting**, or

  - at the non-controlling interest's **proportionate share** of the investee's identifiable net assets

Consolidation process: non-controlling interests

STAR acquires LIGHT by purchasing 60% of its equity for 300 million in cash. **The fair value of the non-controlling interests is determined to be 200 million.** The company's tax rate is on a 40% basis.

The key figures included in the Balance Sheet of LIGHT at the date of acquisition are summarized in the table below:

Balance sheet LIGHT	
Assets 290	Equity 190
	Liabilities 100

The fair values for all assets and liabilities of LIGHT are equal to their book values, except for a parcel of land, a building and a trademark. The fair values of those assets are given in the following table:

	Book value	Fair value
Building	50	140
Land	30	75
Trademark	90	255

revaluation of assets

Consolidation process: non-controlling interests

Full goodwill recognition

If the company chooses to apply the full goodwill method, **the non controlling interests' value is equal to their fair value** (200 million). In such a case, the total value of the company is equal to the price paid by the parent company + fair value of non controlling interests

Consideration paid by the parent company (60%)	300
Fair value of non-controlling interests (40%)	200
Total Value (100%)	**500**

Goodwill can be computed as:

Total Value	500
- Book value of equity	(190)
- Net surpluses (net of tax effects)	(180)
= Goodwill	**130**

The tax effect is determined as surpluses*tax rate =300*0,4 = 120
Net surpluses = 300-120 = 180

Consolidation accounting for subsidiaries
Proportionate share of the investee's identifiable net assets

If STAR chooses to record the non-controlling interests at their proportionate share of the amount of the investee's identifiable net assets, the goodwill recognised and measured in the consolidated financial statements is only the amount attributable to the portion belonging to the parent company (i.e. STAR).

- The value of the non-controlling interests is 76 (i.e. book value of the proportionate share of the investee's identifiable net assets)
- The portion of net surpluses belonging to the controlling entity is 108 (i.e. 180 x 60%)

Price paid (60% of subsidiary FV)	300	
- Book value of equity (60%)	(114)	190 * 0,6
- Net surplus on identifiable assets (605)	**(108)**	180 * 0,6
= Goodwill recognized (60%)	**78**	

Elimination of intra-group transactions

- IFRS 10 requires the full elimination of intra-group transactions between entities of the group, that consist in
  - infra-group revenues and costs, receivables and payables; taxes are eliminated
  - intercompany profits and losses, related to inventories and fixed assets;
  - infra-group dividends.
- From the perspective of the consolidated financial statements, the transactions that occur between group companies are equivalent to transactions between divisions/ functions within a single company. Such transactions cannot be presented in the consolidated financial statements, as these must present only those transactions that group companies have made with third parties, i.e. outside the group.

Elimination of intra-group transactions: examples

The supply of goods from one company to another within the group is equivalent, from a consolidation point of view, to the 'transfer' of goods from one warehouse to another, within the same company.

This should not be identified by the general ledger system as a sale of goods and, by the same token, intra-group supplies should leave the consolidated financial statements untouched.

Financing provided by a holding company to subsidiaries is equal, in terms of the consolidated financial statements, to a 'cash transfer` from a division to another within the same company.

This operation does not qualify as financing and consequently it should not be recognised in the group financial statements.

Elimination of intra-group payables and receivables

The adjustments posted to eliminate intercompany payables and receivables, revenues and expenses follow the steps below:

1. Identify which values of credit/ debit and costs/revenues arising from intra-group transactions are recorded in the financial statements of the companies included in consolidated financial statement;

2. Make sure there is mutual equivalence between the accounts, if this equivalence is not present, reconcile intra-group values;

3. Delete the mutual accounts (receivables and payables, costs and revenues).

Elimination of intra-group profits and losses

The adjustments posted to eliminate intercompany profits and losses related to fixed assets and inventories follow the steps below:

- Adjusting the carrying values of assets that have been the subject of the intra-group transaction and that are still recognised in the balance sheet of the acquiring company; the value of these goods must be 'brought back` to the original value as if they had never been sold.

- Adjusting the income items related to those goods that are 'generated' by the infra-group transaction. The result of operations of companies involved in the transaction, in fact, may be changed as a result of the intra-group transaction, and this change must be eliminated.

Elimination of intra-group profits and losses

Company A has an 80% stake in Company B. On 1.1.X Company A sold to Company B a plant for a total amount of 1.100 (book value: 900; yearly depreciation quota: 100). During the year X, Company B recorded depreciation for 110.

- Adjustment 1: eliminate the surplus gain recorded by A (1.100-900=200)
- Adjustment 2: bring back to 900 of the value of the asset recorded by B (purchased and recorded for 1.100)
- Adjustment 3: eliminate the amount exceeding the 'original' depreciation quota (110 – 100 = 10)

we just bring it back

Elimination of intra-group dividends → IS , From net profit

The adjustments posted to eliminate intra-group dividends follow the steps below:

- Eliminating the financial income, recognized by the company that receives the dividends;
- Reintegrating the reserves of the company that distributes the dividends;
- Decreasing in shareholders' equity attributable to non-controlling interests by the amount of dividends received by them.

The distribution of dividends by a parent company to its shareholders does not constitute an infra-group transaction. In this case, those who receive the dividends (the parent's shareholders) are external to the group, since the group is made of the parent company and its subsidiaries.

If company A has a 100% stake in company B, dividends from the net profit of company B should be paid to the shareholders (company A). Therefore, A recognizes income from dividends of B in its income statements and B recognizes a portion of net profit as dividends to the parent company. However, these transactions are eliminated in the group financial statements to avoid duplication of dividends paid from net profit.

Report the consolidated financial statement

Equity method

Association, Joint Venture, Other type of investments

- Equity method is used when the investor holds significant influence over investee, but does not exercise full control over it, as in the relationship between parent and subsidiary

- Unlike in the consolidation method, there is no consolidation and elimination process.

- The investor reports a proportionate share of the investee's equity as an investment (at cost of acquisition):

  - Profit / loss from the investee increase / reduce the investment account by an amount proportionate to the investor's shares

  - Dividends paid out by the investee are deducted from this account