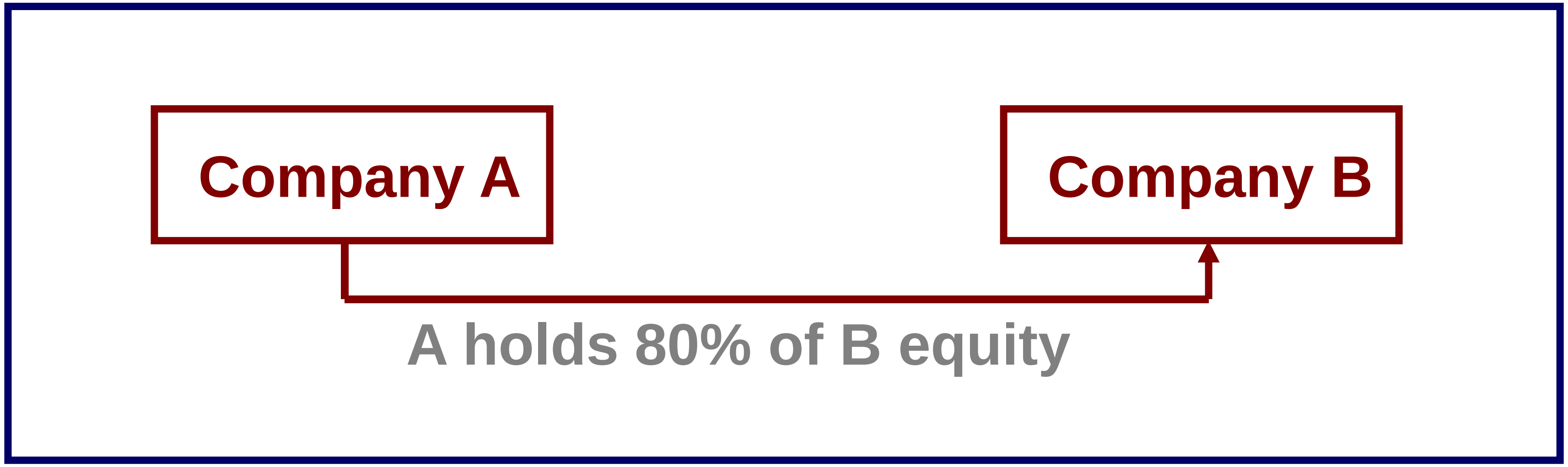
# The case of group constitutions

## Consolidating financial statements

# Acquisition of an interest in a company




A and B belong to the same group. A is the parent company. B is the subsidiary.

Consolidated financial statements are those of a group presented as a single entity

# Relation between a parent and a group entity

| Type of relationship | Type of company | Consolidation method |
|---|---|---|
| Control | Subsidiary | Full consolidation |
| Joint control | Joint venture | Proportionate consolidation |
| Significant influence | Associate | Equity method |

Same logic

# Répartition 2009 des filiales de SocGen

| | France | Europe | Amérique | Reste | Total |
|---|---|---|---|---|---|
| Banques | 9 | 20 | 5 | 17 | 51 |
| Stés financières | 55 | 80 | 21 | 9 | 165 |
| Stés de portefeuille | 22 | | 3 | 1 | 26 |
| Stés de courtage | 8 | 2 | | | 10 |
| Stés de service | 4 | | | | 4 |
| Stés immobilières | 28 | | | | 28 |
| Stés d'assurances | 4 | 5 | | 1 | 10 |
| Total | 130 | 107 | 29 | 28 | 294 |

# Full consolidation

⇨ **The parent holds 100% of its subsidiary's equity**

| Parent company's Balance sheet | | | | | Subsidiary's Balance sheet | | | |
|---|---|---|---|---|---|---|---|---|
| Investment in S | 100 | Equity | 400 | | Assets | 198 | Equity | 100 |
| Other assets | 950 | Net income | 24 | | | | Net income | 8 |
| | | Debts | 626 | | | | Debts | 90 |

# Full consolidation

⇨ **The parent holds 100% of its subsidiary's equity**

| Combined balance sheets | | | |
|---|---|---|---|
| Investment in S | ~~100~~ | Equity of P | 400 |
| Assets of P | 950 | Net income of P | 24 |
| Assets of S | 198 | Equity of S | ~~100~~ |
| | | Net income of S | 8 |
| | | Debts of P | 626 |
| | | Debts of S | 90 |

# Full consolidation

**The parent holds 100% of its subsidiary's equity**

| Consolidated balance sheets | | | |
|---|---|---|---|
| | | Equity of P | 400 |
| Assets | 1148 | Net income | 32 |
| | | Debts | 716 |

# Full consolidation

⇨ **The parent holds 60% of its subsidiary's equity**

| Parent company's Balance sheet | | | | | Subsidiary's Balance sheet | | | |
|---|---|---|---|---|---|---|---|---|
| Investment in S | 60 | Equity | 400 | | Assets | 198 | Equity | 100 |
| Other assets | 950 | Net income | 24 | | | | Net income | 8 |
| | | Debts | 586 | | | | Debts | 90 |

**60%**

# Full consolidation

⇨ **The parent holds 60% of its subsidiary's equity**

| Combined balance sheets | | | |
|---|---|---|---|
| Investment in S | ~~60~~ | Equity of P | 400 |
| Assets of P | 950 | Net income of P | 24 |
| Assets of S | 198 | Equity of S | 100 |
| | | Net income of S | 8 |
| | | Debts of P | 586 |
| | | Debts of S | 90 |

**Parent ~~60~~+4.8**

**Minority interests 43.2**

# Full consolidation

⇨ **The parent holds 60% of its subsidiary's equity**

| Consolidated balance sheets | | | |
|---|---|---|---|
| | | Equity of P | 400.0 |
| Assets | 1148 | Net income | 28.8 |
| | | Minority interests | 43.2 |
| | | Debts | 676.0 |

# Full consolidation

⇨ **The parent holds 60% of its subsidiary's equity**

| Parent company's income statement | | | | | Subsidiary's income statement | | | |
|---|---|---|---|---|---|---|---|---|
| Expenses | 1540 | Revenue | 1564 | | Expenses | 632 | Revenue | 640 |
| Net income | 24 | | | | Net income | 8 | | |
| | | | | | | | | |

**Parent : 4.8**

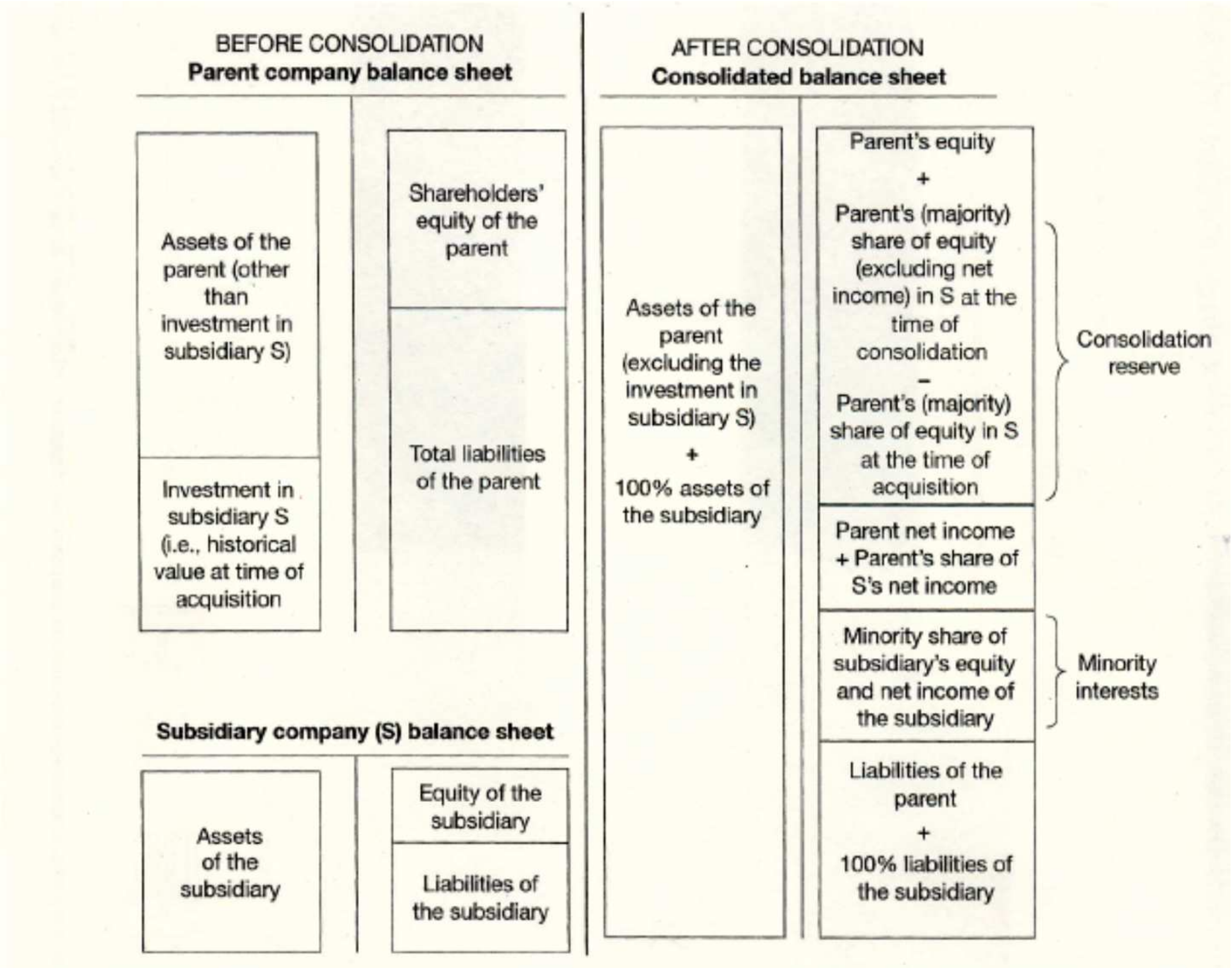
**Minority interest : 3.2**

# Full consolidation

⇨ **The parent holds 60% of its subsidiary's equity**

| Consolidated income statement | | | |
|---|---|---|---|
| Expenses | 2172.0 | Revenue | 2204 |
| Net income | 28.8 | | |
| Minority interests | 3.2 | | |

# Full consolidation



# Goodwill in consolidated accounts

⇨ **The parent holds 70% of its subsidiary's equity. Shares were purchased for 1300.**

| Parent company's Balance sheet | | | | | Subsidiary's Balance sheet | | | |
|---|---|---|---|---|---|---|---|---|
| Investment in S | 1300 | Equity | 5000 | | Assets | 1600 | Equity | 1500 |
| Other assets | 8000 | Net income | 300 | | | | Net income | 100 |
| | | Debts | 4000 | | | | | |

1050 (1500*0.7) Subsidiary's equity
250 Goodwill

# Goodwill in consolidated accounts

⇨ **The parent holds 70% of its subsidiary's equity. Shares were purchased for 1300.**

| Combined balance sheets | | | |
|---|---|---|---|
| Book value of S equity | ~~1050~~ | Equity of P | 5000 |
| Goodwill | 250 | Net income of P | 300 |
| Assets of S | 1600 | Equity of S | 1500 |
| Assets of P | 8000 | Net income of S | 100 |
| | | Debts of P | 4000 |

**Parent ~~1050~~+210**

**Minority interests 450+30**

# Goodwill in consolidated accounts

⇨ **The parent holds 70% of its subsidiary's equity. Shares were purchased for 1300.**

| Consolidated balance sheet | | | |
|---|---|---|---|
| Goodwill | 250 | Equity of P | 5000 |
| Assets of S | 9600 | Net income | 370 |
| | | Minority interests | 480 |
| | | Debts of P | 4000 |

# Goodwill in consolidated accounts

**Fair value of the acquired equity**

**-**

**Book value of the acquired equity**

---

**Difference on acquisition**

**Valuation difference**, if the difference is attributable to identifiable assets.

The value of the identified assets is increased (decreased).

The accounting treatment of the valuation difference is the same as the one of the identified assets.

**Goodwill** ("payment by the acquirer in anticipation of future cash flows that cannot be individually identified" IFRS3). An impairment test is performed annually.

# The proportionate consolidation

Proportionate consolidation does not differ from full consolidation, but

- Assets, liabilities, revenues and expenses are integrated only proportionately to the interest held by the parent in the joint venture,

- Hence, there is no minority interests.

# The equity method

⇨ **The parent holds 20% of the associate's equity**

| Parent company's Balance sheet | | | | | Associate's Balance sheet | | | |
|---|---|---|---|---|---|---|---|---|
| Investment in A | 80 | Equity | 1000 | | Assets | 960 | Equity | 400 |
| Other assets | 2110 | Reserves | 432 | | | | Reserves | 122 |
| | | Net income | 104 | | | | Net income | 88 |
| | | Debts | 654 | | | | Dettes | 390 |

34

24.4 to the parent

9.6 to the parent

# The equity method

⇨ **The parent holds 20% of the associate's equity**

| Consolidated balance sheets | | | |
|---|---|---|---|
| Investment in A | 114 | Equity of M | 1000.0 |
| Assets | 2110 | Reserves | 456.4 |
| | | Net income | 113.6 |
| | | Debts | 654.0 |

# The equity method

⇨ **The parent holds 20% of the associate's equity**

| Parent's income statement | | | | | Associate's income statement | | | |
|---|---|---|---|---|---|---|---|---|
| Expenses | 9560 | Revenue | 9664 | | Expenses | 6602 | Revenue | 6650 |
| Net income | 104 | | | | Net income | 48 | | |

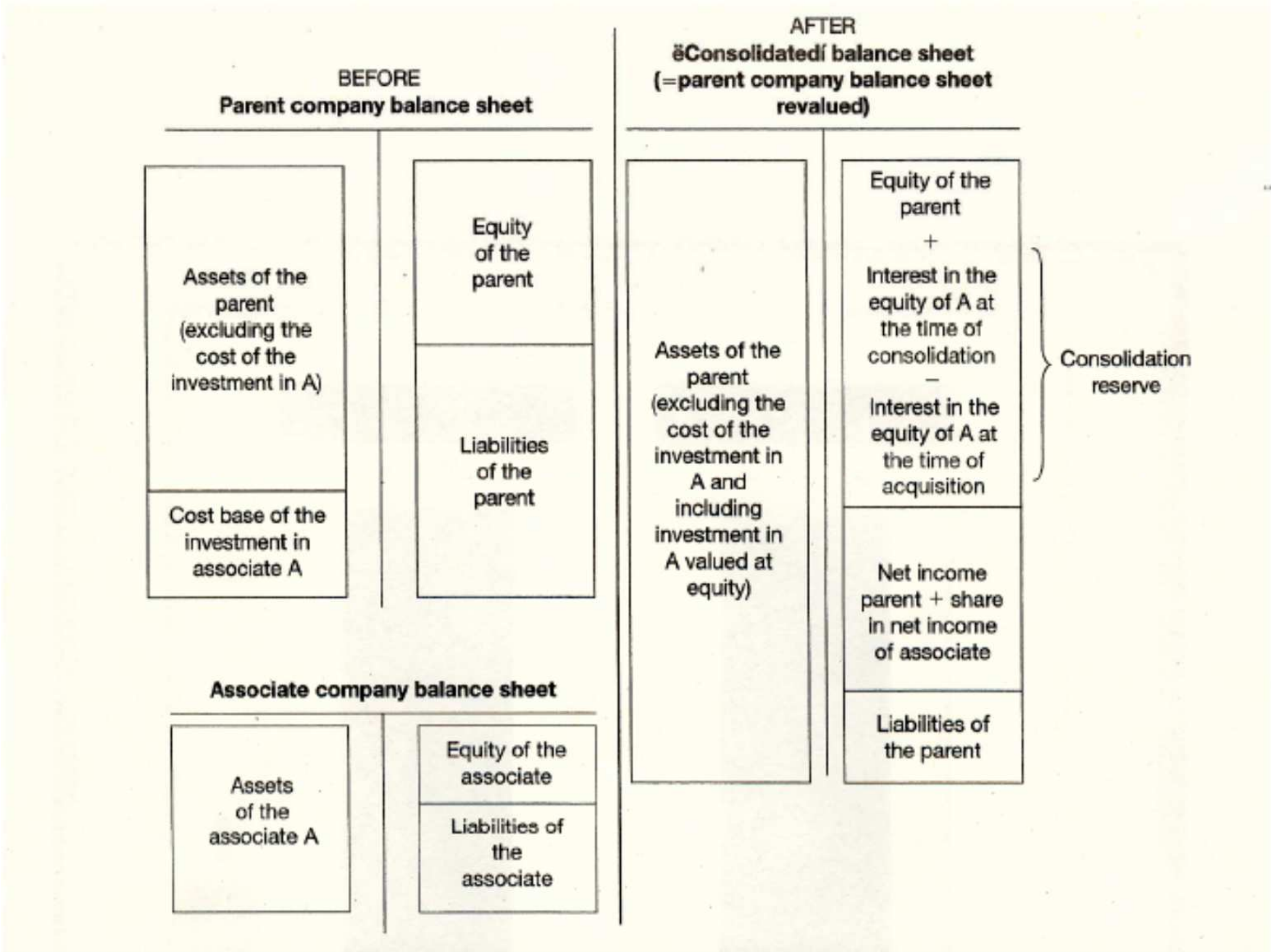
9.6 pour K

# The equity method

⇨ **The parent holds 20% of the associate's equity**

| Consolidated income statement | | | |
|---|---|---|---|
| Expenses | 9560.0 | Revenue | 9664 |
| Net income | 113.6 | Income from associates | 9.6 |

# The equity method



# Technical aspects of consolidation

**Harmonizing accounting data.**

Aggregated accounting figures have to be consistent, i.e. based on the same accounting principles and rules.

**Eliminating intra-group transactions.**

Intra-group transactions must be eliminated because they fictitious assets, liabilities or incomes.