Answer 1.06

Minority interests in company A: 40 = 20% * [1000 - 800]
Minority interests in company B: 520 = 52% * 1000
The consolidated Minority interests are 560 = 40 + 520.

Answer 1.07

Gross dividends paid by company B are valuated for 800 = 1000 Cur * 0.8 (average rate of Year 1).
Company A receives 560 = 70% * 800 which is the amount to eliminate from the profit and to transfer to the reserves.

Answer 1.08

The adjusted equity of the acquired company is 1000 = 800 + 200.

The goodwill is the difference between the acquisition price of 1000 and 800 = 80% * 1000 which is 200.

Answer 1.09

The cash flow is equal to the consolidated result + non cash charges - non cash incomes.
From our situation, we get a cash flow of 550 = 300 + 200 + 100 + (50), considering the only non cash items are "Depreciations", 'Provisions" and 'Profit from equity method company".

Answer 1.10

The first year, the P&L impact was 250 = 100 * 2.5 and this amount must be kept unchanged in the Reserves.

Considering a closing rate of 1.8 this year, the adjustment after translation becomes

	Debit	Credit
(~rite-o fdn receivables (P&L)	250	
Receivables (Balance sheet)		180
Translation adjustments		70

and the company being consolidated with the proportional method at 50%, the correct answer is Credit 35.

6 CORRECT ANSWERS: QUIZZ 2

Answer 2.01

Company P	3rd parties	500	500
	Company A	200	0
	Company B	300	300
Company A	3rd parties	700	700
	Company P	100	0
Company B	3rd parties	100	0
	Company P	400	0
			1,500

Company P/Company A is eliminated for 200.
Company P/Company B for an amount of 300 is not eliminated because B is consolidated with the equity method.
Company A/Company P is eliminated for 100.
All amounts in company B accounts are not integrated because of the equity method.

Answer 2.02

The annual profit of 200 splits into 120 and 80 for the two mid-year periods.

Moreover, we have to consider an adjustment of (40) corresponding to an additional depreciation. This amount of (40) must be split into (20) and (20) for the two periods considered.

Finally, the contribution to the consolidated profit is 132 = 90% * [120 + (20)] + 70% * [80 + (20)]

Answer 2.03

In statutory accounts, the 20% of shares disposed correspond to a value of 250 = 1000 * [20% / 80%], giving a gain of 150 = 400 – 250.

In consolidation, we sell for a price of 400 shares valuated for 300 = 20% * 1500, giving a gain of 100.

The consolidation adjustment will consist in decreasing that gain for 50 by a Debit 50.

Answer 2.04

3rd parties percentages are

- 20% in company A
- 44% in company B
- 66.4% in company C

Considering Minority interests are calculated in the net equity = equity less financial investments in consolidated companies, we find

- For company A: 220 = 20% * [2000 – 900]
- For Company B: 132 = 44% * [1000 – 700]
- For Company C: 664 = 66.4% * 1000

giving a total of 1016.

Answer 2.05

Option a: Not correct

We can have a company owned at 100% giving negative consolidated reserves and a single company with 3rd Parties with a positive equity, so giving positive Minority interests.

Option b: Correct

... and the cumulated losses are greater than the consolidated reserves of all the other companies of the group.

Option c: Not correct

In consolidation, reserves can be negative because one company makes huge cumulative losses since a number of years.

Option d: Not correct

Suppose parent company reserves are equal to zero and the only consolidated company is making losses since its first year consolidation. In such case we would get consolidated equity lower than statutory equity.

Answer 2.06

The contribution of the paid dividends will be

- (300) for company P
- (40) = 20% * (200) for company A
- (30) = 30% * (100) for company B

giving a total of (370).

Answer 2.07

Bank account of parent company is consolidated at 100% and we show a cash out of (300).

Bank account of company A being consolidated by the equity method, we don't have any cash in the cash flow statement.

So the net impact is (300).

Answer 2.08

The amount of 150 in the transfer column has nothing to do with dividends or interim dividends. We have seen several times that this column was used mainly for two reasons, either a decrease in percentage in company A or some elimination of group profit via the Reserves account.

The option d is not correct.

Answer 2.09

Consolidated reserves of company A are

$$60\% * [2000 + 500] + (200) - [1000 + 200] = 100.$$

Answer 2.10

Capital account at closing rate is 7400 = 2000 * 3.7 and at historical rate is 6600 = 1000 * 3.0 + 1000 * 3.6. This implies a debit on Capital for 800 and a credit on Translation adjustments for 800.

Retained earnings account at closing rate is 2590 = 700 * 3.7 and at historical rate is 2210 = 300 * 3.1 + 400 * 3.2. This implies a debit on Retained earnings for 380 and a credit on Translation adjustments for 380.

Result account at closing rate is 1110 = 300 * 3.7 and at average rate is 1020 = 300 * 3.4. This implies a debit on Result for 90 and a credit on Translation adjustments for 90.

The total impact on Translation adjustments account is Credit 1270.

7 CORRECT ANSWERS: QUIZZ 3

Answer 3.01

Indirect financial wercentacle

- P -> A -> C -> E : 80% * 60% * 10% = 4.8%
- P -> A -> D -> E : 80% * 70% * 20% = 11.2%
- P -> B -> A -> C -> E : 40% * 10% * 60% * 10% = 0.24%
- P -> B -> A -> D -> E : 40% * 10% * 70% * 20% = 0.56%
- P -> B -> E : 40% * 70% = 28%

giving a total of **44.8%.**

Indirect control percentage

Company E is owned by

- Company B: Not controlled by P because B owned at only 40%
- Company C: Not controlled by P because of shareholders agreement
- Company D: Controlled indirectly by P at 70%

The only voting rights to take into account are the 20% owned by company D.

Answer 3.02

Let's set the selling price to X.

The consolidated value of the 80% shares is **3520** = 80% * [4000 + 400].

At this moment, the consolidated gain is X – **3520.** But we also have to eliminate the goodwill for **300,** giving a net consolidated gain of X – 3520 – 300 which must be equal to **200.**

The value of X is **4020.**

Answer 3.03

Equity value of company A is **1560** = 40% * [3000 + 1000 + 400 – 500].
Equity value of company B is **240** = 12% * [1000 + 800 + 200].

Consolidated equity value is **1800.**

Answer 3.04

Consolidated reserves before transaction

- For company A : (400) = 80% * 2000 – 100% * 2000
- For company B : (160) = 48% * 1000 – 80% * 800

giving a total of (560) = (400) + (160)

Consolidated reserves after transaction

- For company A : (240) = 48% * 2000 – 60% * 2000
- For company B : (200) = 60% * 1000 – 100% * 800

giving a total of (440) = (240) + (200)

The impact on A and B consolidated reserves is 120 = (440) – (560)

Answer 3.05

Option a: Not correct

Year 1 closing assets and liabilities will not impact the cash flow statement because they have not been acquired. The only cash out to show is the acquisition price of the shares giving the control on that company.

Option b: Not correct

A goodwill never appears in a cash flow statement. A goodwill is only a part of the transaction amount.

Option c: Not correct

This amount of 400 corresponding to the acquisition price less the goodwill is also a part of the acquisition price. It doesn't appear in the cash flow statement.

Option d: Correct

Whatever the consolidation method may be or the percentage acquired, the only amount impacting the cash flow statement is the acquisition price.

Answer 3.06

The first step when deconsolidating a company is to consolidate that company with the equity method.

The equity value would be **1350** = 50% * [2000 + 1000 + (300)].

The second step consists in modifying the value to bring it to the statutory financial investment of **1800.** This can be done by a debit **450** on the equity value and a credit **450** on a profit account. This last booking is the answer.

Answer 3.07

Equity value of company B = **520** = 20% * [2000 + 1000 + **200** – 600].

The indirect group financial percentage in company A is 64% = 60% + 20% * 20% and 3rd Parties indirect percentage is **36** % = **100%** - **64%.**

Minority interests are **1980** = **36%** * [3000 + **2000** + **5001.**

Answer 3.08

We first have to evaluate the consolidated equity of the subgroup which is

- Capital of company A = **3000**
- Reserves of company A = **2000**
- Result of company A = **1000**
- Consolidated reserves of company B = **420** = 70% * [2000 + **500** + 100] – [1500 + (100)]

that is a total of **6420.**

Considering a selling price of X, company P would make a profit of X – **60** % * **6420 = X – 3852.**

But this profit has to be decreased by the **500** goodwill attached to the 60% shares, which gives a final profit of X – **3852 – 500** that must be equal to **300.**

We find X = **4652.**

Answer 3.09

We have seen several times through our different examples that when a company is consolidated with a percentage X until a shareholder decides to sell a percentage of Y, the following part of consolidated reserves, that is "consolidated reserves * (Y / X)" are transferred from the concerned company to the shareholder.

In our case, we speak about a ratio of ¼ = 20% / 80% which applies to the remaining consolidated reserves 180 = 200 + (20). Indeed, dividends paid must be deducted because already transferred (paid) to the shareholder.

The correct answer is (45) = - 180 * (20% / 80%).

Answer 3.10

Let's suppose the unknown acquisition price for the 30% is X and the resulting goodwill is G.

We are now able to calculate the consolidated equity used in the ratio, which is

- Equity of parent company = 3000
- Consolidated reserves of company A = 70% * 2000 - [1000 + X - G] = 400 - P + X
- Minority interests of company A = 600 = 30% * 2000

giving a total of 4000 - X + G.

But, in order to comply with Bankers requests, we have to reduce the equity by the goodwill. Consolidated equity becomes 4000 - X.

After global integration, debts become 4000 = 2000 + 2000 and the ratio "Debts/Consolidated equity" is 4000 / [4000 - X] = 2.

We easily find X = 2000.

PART 8
INTERNATIONAL CONSOLIDATION GLOSSARY