DIRECT CONSOLIDATION

BETA	(7)	(8)	(9)	(10)	(11)	(12)
Goodwill (gross val.)	220					220
Goodwill (deprec.)	(22)					(22)
Lands	1,000					1,000
Tangible assets (acq.val.)	5,000					5,000
Tangible assets (deprec.)	(2,200)					(2,200)
Fin.invest./BETA	0					0
Fin.invest./GAMMA	0					0
Fin.invest./DELTA	0					0
Fin.invest./MU	3,780	(756)		(3,024)		0
Equity value	0					0
Receivables/3rd Parties	7,000					7,000
Receivables/DELTA	0					0
Cash	1,000					1,000
Link account(Intercos)	0					0
Link account(Fin.Inv.)	0			3,024	(6,900)	(3,876)
	15,778	(756)	0	0	(6,900)	8,122
Capital	6,000	(1,200)	(4,800)			0
Retained earnings	2,300	(460)	(1,840)			0
Reserves	200	(40)	(160)			0
Result	778	(156)	(622)			0
Consolidated reserves	0		7,422		(6,900)	522
Translation adjustments	0					0
Minority interests	0	1,100				1,100
Provisions	600					600
Payables/3rd Parties	5,900					5,900
Payables/ALPHA	0					0
	15,778	(756)	0	0	(6,900)	8,122
Turnover/3rd Parties	30,000					30,000
Turnover/DELTA	0					0
Dividends/DELTA	0					0
Exchange gain(unrealized)	0					0
Gain on disposals	0					0
Purchases/3rd Parties	(28,400)					(28,400)
Purchases/ALPHA	0					0
Depreciations	(722)					(722)
Provisions	(100)					(100)
Exchange loss(realized)	0					0
Loss on disposals	0					0
Loss on equity cies	0					0
Link account(Intercos)	0					0
Result	778	0	0	0	0	778
Group result						622
Minority result						156

BETA - Column (7)

We continue by referencing to the subtotal column (7).

BETA - Column (8)

We calculate Minority interests by reclassifying 20% of each equity account.

We also consider 20% of Minority interests in the Financial investment, as explained in Part 2 of this book.

	Debit	Credit
Capital	1,200	
Retained earnings	460	
Reserves	40	
Result	156	
Fin.invest./MU		756
Minority interests		1,100

BETA - Column (9)

We then eliminate the group part of 80% in the equity and book the counterpart on the Consolidated reserves account.

	Debit	Credit
Capital	4,800	
Retained earnings	1,840	
Reserves		
Result	622	
Consolidated reserves		7,422

BETA - Column (10)

The net financial investment on company MU is eliminated via the Link account.

	Debit	Credit
Link account(Fin.Inv.)	3,024	
Fin.invest./MU		3,024

BETA - Column (11)

We finally pick up the adjusted financial value on company BETA in ALPHA accounts and book it on the Consolidated reserves via the Link account.

	Debit	Credit
Consolidated reserves	6,900	
Link account(Fin.Inv.)		6,900

DIRECT CONSOLIDATION

GAMMA	(1)	(2)	(3)	(4)	(5)
Goodwill (gross val.)					0
Goodwill (deprec.)					0
Lands					0
Tangible assets (acq.val.)	5,000	(5,000)			0
Tangible assets (deprec.)	(1,300)	1,300			0
Fin. invest./BETA					0
Fin. invest./GAMMA					0
Fin. invest./DELTA					0
Fin.invest./MU					0
Equity value		270			270
Receivables/3rd Parties	3,000	(3,000)			0
Receivables/DELTA					0
Cash	1,300	(1,300)			0
Link account s)					0
Link account(Fin.Inv.)				(600)	(600)
	8,000	(7,730)	0	(600)	(330)
Capital	2,000	(1,400)	(600)		0
Retained earnings	(900)	630	270		0
Reserves					0
Result	(200)	140	60		0
Consolidated reserves			270	(600)	(330)
Translation ddjustments					0
Minority interests					0
Provisions					0
Payables/3rd Parties	7,100	(7,100)			0
Payables/ALPHA					0
	8,000	(7,730)	0	(600)	(330)
Turnover/3rd Parties	35,000	(35,000)			0
Turnover/DELTA					0
Dividends/DELTA					0
Exchange gain(unrealized)					0
Gain on disposals	300	(300)			0
Purchases/3rd Parties	(35,000)	35,000			0
Purchases/ALPHA					0
Depreciations	(500)	500			0
Provisions					0
Exchange loss(realized)					0
Loss on disposals					0
Loss on equity cies		(60)			(60)
Link account(Intercos)					0
Result	(200)	140	0	0	(60)
Group result					(60)
Minority result					0

GAMMA – Column (1)

Company GAMMA is consolidated with the equity method this year and its sole equity would be sufficient for the consolidation. However we suppose we still receive a full consolidation bundle.

GAMMA – Column (2)

This adjustment eliminates all amounts that cannot be integrated in the consolidated accounts. It concerns the balance sheet and the P&L. In the balance sheet, we eliminate all assets and liabilities accounts, but only 70% of the equity account. To balance this adjustment, we book the Equity value as 30% of that equity.
We apply the same approach with the P&L accounts and book the Loss on equity companies account.

	Debit	Credit
Tangible assets (acq.val.)		5,000
Tangible assets (deprec.)	1,300	
Equity value	270	
Receivables/3rd Parties		3,000
Cash		1,300
Capital	1,400	
Retained earnings		630
Payables/3rd Parties	7,100	
Turnover/3rd Parties	35,000	
Gain on disposals	300	
Purchases/3rd Parties		35,000
Depreciations		500
Loss on equity cies	60	

GAMMA – Column (3)

We eliminate 30% of the Equity accounts and book the total amount on the Consolidated reserves account.

	Debit	Credit
Capital	600	
Retained earnings		270
Result		60
Consolidated reserves		270

GAMMA – Column (4)

The amount in this adjustment is the Financial investment value of company GAMMA owned by ALPHA.

	Debit	Credit
Consolidated reserves	600	
Link account(Fin.Inv.)		600

DIRECT CONSOLIDATION

DELTA	(1) (CUR)	(2)	(3)	(4)	(5)	(6)
Goodwill (gross val.)						0
Goodwill (deprec.)						0
Lands						0
Tangible assets (acq.val.)	8,000	7,200				7,200
Tangible assets (deprec.)	(4,800)	(4,320)				(4,320)
Fin.invest./BETA						0
Fin.invest./GAMMA						0
Fin.invest./DELTA						0
Fin.invest./MU						0
Equity value						0
Receivables/3rd Parties	14,000	12,600				12,600
Receivables/DELTA						0
Cash	4,800	4,320				4,320
Link account(Intercos)						0
Link account(Fin.Inv.)						0
	22,000	19,800	0	0	0	19,800
Capital	8,000	7,200	800	(800)		7,200
Retained earnings	4,200	3,780	140	(380)		3,540
Reserves					210	210
Result	1,000	900		(300)		600
Consolidated reserves						0
Translation adjustments			(940)	1,480	60	600
Minority interests						0
Provisions	2,000	1,800			(270)	1,530
Payables/3rd Parties	5,550	4,995				4,995
Payables/ALPHA	1,250	1,125				1,125
	22,000	19,800	0	0	0	19,800
Turnover/3rd Parties	40,000	24,000				24,000
Turnover/DELTA						0
Dividends/DELTA						0
Exchange gain(unrealized)						0
Gain on disposals						0
Purchases/3rd Parties	(32,400)	(19,440)				(19,440)
Purchases/ALPHA	(5,200)	(3,120)				(3,120)
Depreciations	(800)	(480)				(480)
Provisions	(600)	(360)				(360)
Exchange loss(realized)						0
Loss on disposals						0
Loss on equity cies						0
Link account(Intercos)						0
Result	1,000	600	0	0	0	600
Group result						
Minority result						

DELTA – Column (1)

Statutory accounts in local currency CUR.

DELTA – Column (2)

Accounts translated at closing rate of 0.9 for the balance sheet and at average rate of 0.6 for the P&L.

DELTA – Column (3)

We carry forward the corresponding translation adjustment booked in Year 1 consolidation. The Result impact is transferred to the Retained earnings account.

	Debit	Credit
Capital		800
Retained earnings		140
Translation adjustments	940	

DELTA – Column (4)

A new translation adjustment is necessary because of the historical value of the equity. Where those amounts come from?

	Debit	Credit
Capital	800	
Retained earnings	380	
Result	300	
Translation adjustments		1,480

- Capital must be valuated finally at a historical value of 7200 = 8000 CUR * 0.9. After column (3) adjustment, its value is 6400 = 7200 + (800). This explains the debit amount of 800 = 7200 – 6400.
- Historical value of Retained earnings is 3540 = 4000 CUR * 0.85 + 200 CUR * 0.7. After column (3) adjustment, its value is 3920. This explains the debit amount of 380 = 3920 – 3540.
- Correct value for the Result is 600 = 1000 CUR * 0.6 instead of 900, giving a correction of 300 = 900 – 600.

DELTA – Column (5)

The Year 1 provision for 300 CUR must be maintained in the consolidation. The local currency adjustment is Provisions Debit 300 and Reserves Credit 300. After translation, Provisions is translated at closing rate of 0.9 and Reserves must be translated at the historical rate (= average rate of Year 1) of 0.7. The difference between the two amounts is booked on the Translation adjustment account.

	Debit	Credit
Provisions	270	
Reserves		210
Translation adjustments		60

DELTA	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Goodwill (gross val.)	0							0
Goodwill (deprec.)	0							0
(Lands	0							0
Tangible assets (acq.val.)	7,200							7,200
Tangible assets (deprec.)	(4,320)							(4,320)
Fin.invest./BETA	0							0
Fin.invest./GAMMA	0							0
Fin.invest./DELTA	0							0
Fin.invest./MU	0							0
Equity value	0							0
Receivables/3rd Patties	12,600							12,600
Receivables/DELTA	0							0
Cash	4,320							4,320
Link account(Intercos)	0			(1,000)				(1,000)
Link account(Fin.Inv.)	0						(3,600)	(3,600)
	19,800	0	0	(1,000)	0	0	(3,600)	15,200
Capital	7,200				(2,880)	(4,320)		0
Retained earnings	3,540				(1,416)	(2,124)		0
Reserves	210				(84)	(126)		0
Result	600	125			(290)	(435)		0
Consolidated reserves	0					7,005	(3,600)	3,405
Translation adjustments	600				(240)			360
Minority interests	0				4,910			4,910
Provisions	1,530							1,530
Payables/3rd Parties	4,995							4,995
Payables/ALPHA	1,125	(125)		(1,000)				0
	19,800	0	0	(1,000)	0	0	(3,600)	15,200
Turnover/3rd Parties	24,000							24,000
Turnover/DELTA	0							0
Dividends/DELTA	0							0
Exchange gain(unrealized)	0	125						125
Gain on disposals	0							0
Purchases/3rd Parties	(19,440)							(19,440)
Purchases/ALPHA	(3,120)		120	3,000				0
Depreciations	(480)							(480)
Provisions	(360)							(360)
Exchange loss(realized)	0		(120)					(120)
Loss on disposals	0							0
Loss on equity cies	0							0
Link account(Intercos)	0			(3,000)				(3,000)
Result	600	125	0	0	0	0	0	725
Group result								435
Minority result								290

DELTA – Column (7)

The intercompany being identified as 1000 EUR, we adapt the Payables side by considering an exchange gain for the difference of 125 = 1125 – 1000.

	Debit	Credit.
Payables/ALPHA	125	
Exchange gain(unrealized)		125

DELTA – Column (8)

We apply the same principle for the intercompany Purchases but this time it is just a reclassification between P&L accounts.

	Debit	Credit
Exchange loss(realized)	120	
Purchases/ALPHA		120

DELTA – Column (9)

We can eliminate both intercompany amounts via a Link account, the first one in the balance sheet and the second one in the P&L.

	Debit	Credit
Payables/ALPHA	1,000	
Link account(Intercos)		1,000
Link account(Intercos)	3,000	
Purchases ALPHA		

DELTA – Column (10)

Elimination of 40% of each equity account and transfer to the Minority interests.

	Debit	Credit
Capital	2,880	
Retained earnings	1,416	
Reserves	84	
Result	290	
Translation adjustments	240	
Minority interests		4,910

DELTA – Column (11)

Elimination of 60% of each equity account and transfer to the Consolidated reserves account.

	Debit	Credit
Capital	4,320	
Retained earnings	2,124	
Reserves	126	
Result	435	
Consolidated reserves		7,005

DELTA – Column (12)

This amount is the Financial investment value booked in ALPHA accounts on company DELTA.

	Debit	Credit
Consolidated reserves	3,600	
Link account(Fin.Inv.)		3,600

MU	(1)	(2)	(3)	(4)	(5)	(6)
Goodwill (gross val.)						0
Goodwill (deprec.)						0
Lands						0
Tangible assets (acq.val.)	6,000					6,000
Tangible assets (deprec.)	(3,000)					(3,000)
Fin.invest./BETA						0
Fin.invest./GAMMA						0
Fin.invest./DELTA						0
Fin.invest./MU						0
Equity value						0
Receivables/3rd Parties	3,000					3,000
Receivables/DELTA						0
Cash	2,000					2,000
Link account(Intercos)						0
Link account(Fin.Inv.)					(3,024)	(3,024)
	8,000	0	0	0	(3,024)	4,976
Capital	3,000		(840)	(2,160)		0
Retained earnings	1,000		(280)	(720)		0
Reserves		200	(56)	**(144)**		0
Result	500	(200)	(84)	(216)		0
Consolidated reserves				3,240	(3,024)	216
Translation adjustments						0
Minority interests			1,260			1,260
Provisions						0
Payables/3rd Parties	3,500					3,500
Payables/ALPHA						0
	8,000	0	0	0	(3,024)	4,976
Turnover/3rd Parties	10,000	(6,000)				4,000
Turnover/DELTA						0
Dividends/DELTA						0
Exchange gain(unrealized)						0
Gain on disposals						0
Purchases/3rd Parties	(8,900)	5,500				(3,400)
Purchases/ALPHA						0
Depreciations	(600)	300				(300)
Provisions						0
Exchange loss(realized)						0
Loss on disposals						0
Loss on equity cies						0
Link account(Intercos)						0
Result	500	(200)	0	0	0	300
Group result						216
Minority result						84

MU - Column (1)

Statutory accounts of this new company entering the consolidation scope. Notice that these accounts show a profit of 500 for the 12 months of Year 2.

MU - Column (2)

The company having a profit of 200 at the date of acquisition, it must be reversed to the Reserves and all P&L accounts contributing to this result must also be eliminated. On the basis of the information given at the beginning of this case study, we have the adjustment, as opposite.

	Debit	Credit
Reserves		200
Turnover/3rd Parties	6,000	
Purchases/3rd Parties		5,500
Depreciations		300

MU - Column (3)

Elimination of 28% = 100% - [80% * 90%] of each equity account and transfer to the Minority interests.

	Debit	Credit
Capital	840	
Retained earnings	280	
Reserves	56	
Result	84	
Minority interests		1,260

MU - Column (4)

Elimination of 72% = 80% * 90% of each equity account and transfer to the Consolidated reserves account

	Debit	Credit
Capital	840	
Retained earnings	280	
Reserves	56	
Result	84	
Minority interests		1,260

MU - Column (5)

This amount is the adjusted Financial investment value booked in ALPHA accounts on company MU.

	Debit	Credit
Consolidated reserves	3,024	
Link account(Fin.Inv.)		3,024