

DIRECT CONSOLIDATION

Only after these three steps, consolidated accounts may be given to the Auditors. 1

Use professional software for consolidation 2

We have seen above there exist four different categories of software that may bring a more or less accurate answer to statutory consolidation. 3

Depending on the size of the group and its complexity, be sure to make the right choice. The one that gives you not only the capability to process the consolidation in a short delay but also the one bringing all means to answer unexpected questions when new shareholders enter the parent company capital. 4

Without entering the difficult logic of consolidation software selection, some features are just to be considered as a must 5

- Integrated consolidation bundle (spreadsheets) 6

- Personalized figures for each company 7
- Complete set of validation rules
- Possibility to book local adjustments

- Automatic calculation of complex group structures with distinction between control and financial percentages 8

- Fully automatic currency translation of all bundles, including historical rates management

- Intercompany matching based on transaction currency and not only matching analysis after currency translation, in order to generate automatically translation adjustments corrections

- Capability to generate automatic adjustments for a large set of situations (goodwill, dividends, stocks margins, deferred taxes, ...)

- Possibility to consolidate by ignoring some categories of adjustments, in order to produce consolidated figures complying with different evaluation rules with a minimum of effort

- All eliminations must be generated automatically with a maximum of accounting and audit transparency

- Full consolidation process must be achieved in a reasonable time : less than one minute for 10 companies, a few minutes for less than 100 companies.

PART 5 ORGANIZATION OF A CONSOLIDATION AND FAST CLOSE

Define some thresholds 1

In order to reduce the number of consolidation adjustments, get the Auditors' agreement on some thresholds whether for intercompany differences or events related to group transactions. 2

Be sure to get some assistance from expert consultant 3

For a group having an oversized consolidation team with a high level of expertise it makes no sense for one or two consolidations a year. It is much more efficient to manage a reasonable number of persons having a strong knowledge of all group companies and all events related to them. Of course these few people must also have a rather good knowledge of consolidation techniques. 4

This is a minimum. 5

Now, these persons can leave the company, can be temporarily ill or just be faced to some difficult consolidation problems. The wise situation in order to avoid planning delay is to be able to count on the assistance of an external expert consultant, in such situations. 6

This is also a way to secure the planning. 7

3.3 After the consolidation 8

When the consolidation process is achieved there are still so many things to complete. 9

Maximize automatic production of disclosures 10

The most important task between the end of the 'technical' step of the consolidation and the Auditors conclusions is the production of the consolidated disclosures (notes to the accounts). 11

There are two issues if we want to optimize the process. 12

First, as the disclosures consist mainly in figures in Excel spreadsheets and comments in Word documents, the final product is a merge of both. Today, some consolidation software offer solutions to link these spreadsheets directly to the consolidation data base and give the assurance that when opening these documents all figures are refreshed with the last version. 13
Moreover, it is also possible to imbed all these spreadsheets in a Word document. 14

Secondly, we are convinced that a large part of the comments on the accounts can be prepared before the consolidation is actually done. This means that part of this task should be prepared in December the latest before the closing. 1

The experience pictured from some groups has shown that taking these two issues into account has reduced the disclosures task from two or three weeks to a couple of days. 2

Optimize communication with Auditors 3

At the end of the consolidation process, Auditors receive the consolidated accounts on a support agreed beforehand (paper, Excel, pdf reports, read-only access to the consolidation software). 4

After having received a "Reporting Version 1", some Auditors communicate their first remarks and ask to receive a "Reporting Version 2" so they can visualize the impact of the requested changes. Of course, this second reporting is to be compared with the first one and not with the reference consolidation. And the situation may be repeated several times. 5

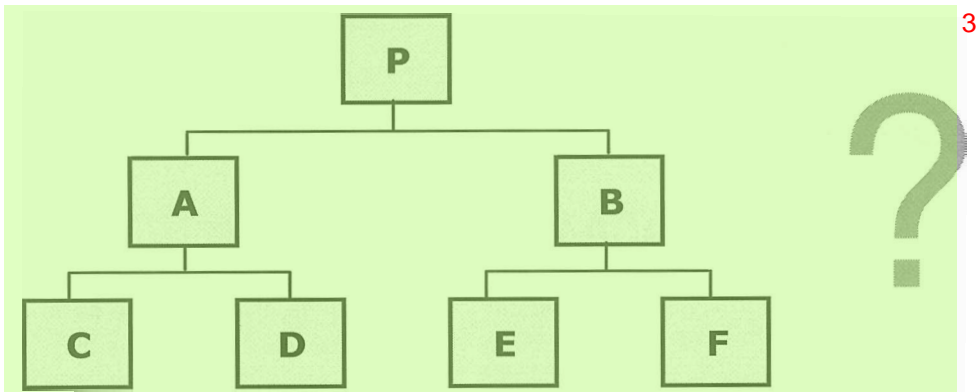
We would recommend negotiating with Auditors to produce a 'temporary version' for audit purpose on which they hand over all their remarks. They receive then a "final version". 6

If possible, ask also to get some guarantee that the same team will audit the next consolidations, otherwise you will have to repeat the story each time. 7

This is also a way to avoid wasting time. 8

PART 6¹

CONSOLIDATION² CASE STUDY⁴



1 OBJECTIVES OF THIS CASE STUDY¹

The objective of this case study is to apply the methodology explained in this book by consolidating a group over two years, and to solve and to document completely with all the necessary explanations.²

More precisely, it consists in the following steps³

- Consolidation of Year 1
- Consolidation of Year 2
- Justification of reserves and minority interests evolution
- Production of the consolidated cash flow statement

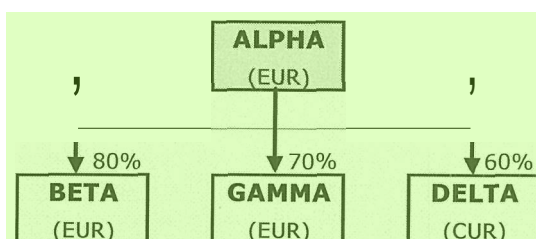
By presenting this case study, we take also the opportunity to show how the work is organized. We don't use a consolidation software. All data will be structured with a spreadsheet approach.⁵

Moreover, all adjustments will be booked completely in each company, including the eliminations. The same methodology will be applied when producing the cash flow statement where the booking of flows will respect the "debit" and "credit" principle.⁶

This consolidation will be done in EUR and, to keep the writing clear, all amounts without a currency are supposed to be in EUR.⁷

2 THE GROUP TO CONSOLIDATE⁸

In Year 1, the ALPHA group consists in four companies, including the parent company, as shown here below.⁹



Three of these companies are presenting their accounts in EUR and DELTA accounts are in a certain foreign currency CUR.¹¹

So EUR will be the consolidation currency.¹²

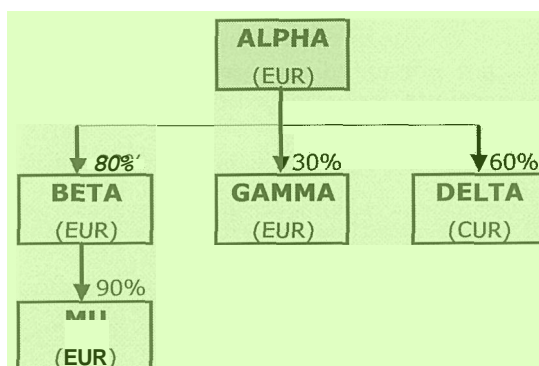
Considering the percentages (control % = financial %), all three subsidiaries are consolidated with the global integration method.¹³

For this first year, following events should be known:¹⁴

- Company BETA has been acquired in January three years ago with a goodwill of 500. This goodwill is depreciated with a rate of 20% a year. At the end of Year 1, we thus have a depreciation amount of (300) in the assets.
- When acquiring BETA, the due diligence identified a tangible asset to be revalued for an amount of 1000. It is depreciated by 10% each year. At the end of Year 1, we so have a total depreciation of (300) in the assets.
- Company GAMMA was acquired also in January four years ago with a goodwill of 700. This goodwill is depreciated with a rate of 20% a year. At the end of Year 1, we thus have a depreciation amount of (560) in the assets.
- DELTA statutory accounts include a provision of 300 CUR which is not compatible with the group evaluation rules. This provision has been eliminated for the first time this year and booked in the statutory P&L.
- DELTA accounts are translated into EUR with the following rates (CUR/EUR) :

- Closing rate : 1 CUR = 0.8 EUR
- Average rate : 1 CUR = 0.7 EUR
- Historical rate for capital account : 1 CUR = 0.9 EUR
- Historical rate for retained earnings : 1 CUR = 0.85 EUR

In Year 2, some structure changes transform the ALPHA group slightly, as shown here below.



40% of company GAMMA shares have been disposed to 3rd Parties and, as a consequence, the company is now consolidated with the equity method. The transaction occurred on January 1st, Year 2.

Company MU has been acquired on July 1st, Year 2.

What else to know?

- The 40% of company GAMMA shares initially booked for 1200 have been sold for a price of 800, giving a loss of disposal of (400) ¹
- The provision of 300 CUR which is not accepted in the consolidation is still booked in company DELTA statutory accounts in Year 2. This means that this consolidation adjustment has to be maintained.
- There is an intercompany transaction between receivables of ALPHA and payables of DELTA. This intercompany transaction has been issued in EUR by company ALPHA.
- While selling 40% of company GAMMA shares, the remaining goodwill is totally eliminated against P&L
- Company DELTA pays dividends of 400 CUR to its shareholders
- Company ALPHA pays dividends of 300 to its shareholders
- Company ALPHA sells a land to company BETA for a price of 1500, giving a group profit of 500.

CONSOLIDATION OF YEAR 1 ²

For this consolidation, we will use one spreadsheet per company, the first ³ column corresponding to its statutory accounts and the next columns on the right are used for consolidation adjustments and eliminations.

The last column on the right is the contribution of the company to the ⁴ consolidated balance.

Each column is identified by a number referencing to additional explanations. ⁵

For practical reasons, these accounts are presented on a left page with an ⁶ even number. If necessary, the same accounts are repeated on the next even page depending on the number of columns needed.

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DIRECT CONSOLIDATION

ALPHA	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Goodwill (gross val.)		500		700			1,200
Goodwill (deprec.)			(300)		(560)		(860)
Lands	1,000						1,000
Tangible assets (acq.val.)							0
Tangible assets (deprec.)							0
Fin.invest./BETA	5,000	(500)				(4,500)	0
Fin.invest./GAMMA	2,100			(700)		(1,400)	0
Fin.invest./DELTA	3,600					(3,600)	0
Receivables/3rd Parties	1,500						1,500
Cash	800						800
Link account(Fin.Inv.)						9,500	9,500.
	14,000	0	(300)	0	(560)	0	13,140
Capital	5,000						5,000
Retained earnings	3,000						3,000
Reserves			(200)		(420)		(620)
Result	400		(100)		(140)		160
Consolidated reserves							0
Translation adjustments							0
Minority interests							0
Provisions	1,000						1,000
Payables/3rd Parties	4,600						4,600
	14,000	0	(300)	0	(560)	0	13,140
Turnover/3rd Parties	10,000						10,000
Purchases	(9,600)						(9,600)
Depreciations			(100)		(140)		(240)
Provisions							0
Result	400	0	(100)	0	(140)	0	160
Group result							160
Minority result							0

PART 6 CONSOLIDATION CASE STUDY

ALPHA - Column (1) 1

Statutory accounts in EUR. 2

ALPHA - Column (2) 3

A gross goodwill of 500 on BETA 4 company has been calculated at time of acquisition in January Year -1.

	Debit	Credit
Goodwill (gross val.)	500	
Fin.invest./BETA		500

ALPHA - Column (3) 6

At the end of Year 1, this 7 goodwill is depreciated for 60% of its value, which is 300, 200 being booked on the Reserves, corresponding to Year -1 and Year 0, and 100 9 on the P&L for this Year 1.

	Debit	Credit
Reserves	200	
Goodwill (deprec.)		300
Depreciations	100	

ALPHA - Column (4) 10

A gross goodwill of 700 on 11 GAMMA company has been calculated at time of acquisition in January Year -1.

	Debit	Credit
Goodwill (gross val.)	700	
Fin.invest./GAMMA		700

ALPHA - Column (5) 13

At the end of Year 1, this 14 goodwill is depreciated for 80% of its value, which is 560, 420 being booked on the Reserves, corresponding to Year -2, Year -1 and Year 0, and 140 on the P&L for this 16 Year 1.

	Debit	Credit
Reserves	420	
Goodwill (deprec.)		560
Depreciations	140	

ALPHA - Column (6) 17

we first eliminate the Financial 18 investments by using a Link account.

	Debit	Credit
Link account(Fin.Inv.)	9,500	
Fin.invest./BETA		4,500
Fin.invest./GAMMA		1,400
Fin.invest./DELTA		3,600

ALPHA - Column (7) 20

The amounts of this column are the totals from column (1) to column (6) of 21 each line. Column (7) represents the contribution for company ALPHA in the consolidated balance.