

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			3,024	(6,900)	0
Link account(Fin.Inv.)	0					(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)¹

We continue by referencing to the subtotal column (7).²

BETA - Column (8)³

We calculate Minority⁴ 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	6
Capital	1,200		
Retained earnings	460		
Reserves	40		
Result	156		
Fin.invest./MU		756	
Minority interests		1,100	

BETA - Column (9)⁷

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

	Debit	Credit	9
Capital	4,800		
Retained earnings	1,840		
Reserves			
Result	622		
Consolidated reserves		7,422	

BETA - Column (10)¹⁰

The net financial investment¹¹ on company MU is eliminated via the Link account.

	Debit	Credit	12
Link account(Fin.Inv.)	3,024		
Fin.invest./MU		3,024	

BETA - Column (11)¹³

We finally pick up the¹⁴ adjusted financial value on company BETA in ALPHA accounts and book it on the Consolidated reserves via the Link account.¹⁵

	Debit	Credit	16
Consolidated reserves	6,900		
Link account(Fin.Inv.)		6,900	

DIRECT CONSOLIDATION

GAMMA	(1)	(2)	(3)	(4)	(5) ¹
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					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 equit / cies		(60)			(60)
Link account(Interco)					0
Result	(200)	140	0	0	(60)
Group result					(60)
Minority result					0

GAMMA – Column (1)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)³

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	6
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 companies	60		

GAMMA – Column (3)⁷

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

	Debit	Credit	9
Capital	600		
Retained earnings		270	
Result		60	
Consolidated reserves		270	

GAMMA – Column (4)¹⁰

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

	Debit	Credit	12
Consolidated reserves	600		
Link account(Fin.Inv.)		600	

DIRECT CONSOLIDATION

DELTA	(1) (CUR)	(2)	(3)	(4)	(5)	(6)	1
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				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 stakes						0	
Link account(Intercos)						0	
Result	1,000	600	0	0	0	600	
Group result							
Minority result							

DELTA - Column (1) 1

Statutory accounts in local currency CUR. 2

DELTA - Column (2) 3

Accounts translated at closing rate of 0.9 for the balance sheet and at 4 average rate of 0.6 for the P&L.

DELTA - Column (3) 5

We carry forward the 6 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) 8

A new translation adjustment 9 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 valued 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) 12

The Year 1 provision for 300 CUR must be maintained in the consolidation. The local currency adjustment is

	Debit	Credit
Provisions	270	
Reserves		210
Translation adjustments		60

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.

7

10

11

14

15

DIRECT CONSOLIDATION

DELTA	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13) 1
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 Parties	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)	(3,600)
	19,800	0	0	(1,000)	0	0	(3,600)	15,200
Capital								
Retained earnings	7,200				(2,880)	(4,320)		0
Reserves	3,540				(1,416)	(2,124)		0
Result	210				(84)	(126)		0
Consolidated reserves	600	125			(290)	(435)		0
Translation adjustments	0					7,005	(3,600)	3,405
Minority interests	600							360
Provisions	0							4,910
Payables/3rd Parties	1,530							1,530
Payables/ALPHA	4,995							4,995
	1,125	(125)		(1,000)				0
	19,800	0	0	(1,000)	0	0	(3,600)	15,200
Turnover/3rd Parties								
Turnover/DELTA	24,000							24,000
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)							0
Depreciations	(480)							(480)
Provisions	(360)							(360)
Exchange loss(realized)	0							(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

PART 6 CONSOLIDATION CASE STUDY

DELTA - Column (7) 1

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	3
Payables/ALPHA	125		
Exchange gain(unrealized)		125	

DELTA - Column (8) 4

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

	Debit	Credit	6
Exchange loss(realized)	120		
Purchases/ALPHA		120	

DELTA - Column (9) 7

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	9
Payables/ALPHA	1,000		
Link account(Intercos)		1,000	
Link account(Intercos)	3,000		
Purchases ALPHA			

DELTA - Column (10) 10

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

	Debit	Credit	12
Capital	2,880		
Retained earnings	1,416		
Reserves	84		
Result	290		
Translation adjustments	240		
Minority interests		4,910	

DELTA - Column (11) 13

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

	Debit	Credit	15
Capital	4,320		
Retained earnings	2,124		
Reserves	126		
Result	435		
Consolidated reserves		7,005	

DELTA - Column (12) 16

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

	Debit	Credit	18
Consolidated reserves	3,600		
Link account(Fin.Inv.)		3,600	

DIRECT CONSOLIDATION

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)
	8,000	0	0	0	(3,024)	4,976
Capital	3,000					0
Retained earnings	1,000					0
Reserves		200				0
Result	500	(200)				0
Consolidated reserves						0
Translation adjustments						0
Minority interests						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)¹

Statutory accounts of this new company entering the consolidation scope²
 Notice that these accounts show a profit of 500 for the 12 months of Year 2.

MU – Column (2)³

The company having a profit of⁴ 200 at the date of acquisition, it must be reversed to the Reserves and all P&L accounts contributing to this result must

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

also be eliminated. On the basis of the information given at the beginning of⁵ this case study, we have the adjustment, as opposite.

MU – Column (3)⁷

Elimination of 28% = 100% -⁸ [80% * 90%] of each equity account and transfer to the Minority interests.

	Debit	Credit ⁹
Capital	840	
Retained earnings	280	
Reserves	56	
Result	84	
Minority interests		1,260

MU – Column (4)¹⁰

Elimination of 72% = 80% *¹¹ 90% of each equity account and transfer to the Consolidated reserves account

	Debit	Credit ¹²
Capital	840	
Retained earnings	280	
Reserves	56	
Result	84	
Minority interests		1,260

MU – Column (5)¹³

This amount is the adjusted¹⁴ Financial investment value booked in ALPHA accounts on company MU.

	Debit	Credit ¹⁵
Consolidated reserves	3,024	
Link account(Fin.Inv.)		3,024