

## DIRECT CONSOLIDATION

### Answer 1.06 1

Minority interests in company A:  $40 = 20\% * [1000 - 800]$  2

Minority interests in company B:  $520 = 52\% * 1000$  3

The consolidated Minority interests are  $560 = 40 + 520$ . 4

### Answer 1.07 5

Gross dividends paid by company B are valued for  $800 = 1000 \text{ Cur} * 0.8$  6  
(average rate of Year 1).

Company A receives  $560 = 70\% * 800$  which is the amount to eliminate from 7  
the profit and to transfer to the reserves.

### Answer 1.08 8

The adjusted equity of the acquired company is  $1000 = 800 + 200$ . 9

The goodwill is the difference between the acquisition price of 1000 and  $800$  10  
 $= 80\% * 1000$  which is 200.

### Answer 1.09 11

The cash flow is equal to the consolidated result + non cash charges - non 12  
cash incomes.

From our situation, we get a cash flow of  $550 = 300 + 200 + 100 + (50)$ , 13  
considering the only non cash items are "Depreciations", "Provisions" and  
'Profit from equity method company'.

### Answer 1.10 14

The first year, the P&L impact was  $250 = 100 * 2.5$  and this amount must be 15  
kept unchanged in the Reserves.

Considering a closing rate of 1.8 this year, the adjustment after translation 16  
becomes

	Debit	Credit	17
(~rite-offn receivables (P&L)	250		
Receivables (Balance sheet)		180	
Translation adjustments		70	

and the company being consolidated with the proportional method at 50%, 18  
the correct answer is Credit 35.

## 6 CORRECT ANSWERS: QUIZZ 2<sup>1</sup>

### Answer 2.01<sup>2</sup>

Company P	3rd parties	500	500	<sup>3</sup>
	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.<sup>4</sup>

Company P/Company B for an amount of 300 is not eliminated because B is<sup>5</sup> consolidated with the equity method.

Company A/Company P is eliminated for 100.<sup>6</sup>

All amounts in company B accounts are not integrated because of the equity<sup>7</sup> method.

### Answer 2.02<sup>8</sup>

The annual profit of 200 splits into 120 and 80 for the two mid-year periods.<sup>9</sup>

Moreover, we have to consider an adjustment of (40) corresponding to an<sup>10</sup> 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  $132 = 90\% * [120 + 11$   
 $(20)] + 70\% * [80 + (20)]$

### Answer 2.03<sup>12</sup>

In statutory accounts, the 20% of shares disposed correspond to a value of<sup>13</sup>  $250 = 1000 * [20\% / 80\%]$ , giving a gain of  $150 = 400 - 250$ .

In consolidation, we sell for a price of 400 shares valued for  $300 = 20\% * 1500$ , giving a gain of 100.<sup>14</sup>

## DIRECT CONSOLIDATION

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

Answer 2.04

3<sup>rd</sup> 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 3<sup>rd</sup> 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** 1

The contribution of the paid dividends will be 2

- (300) for company P 3
- (40) =  $20\% * (200)$  for company A
- (30) =  $30\% * (100)$  for company B

giving a total of (370). 4

**Answer 2.07** 5

Bank account of parent company is consolidated at 100% and we show a cash 6  
out of (300).

Bank account of company A being consolidated by the equity method, we 7  
don't have any cash in the cash flow statement.

So the net impact is (300). 8

**Answer 2.08** 9

The amount of 150 in the transfer column has nothing to do with dividends or 10  
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. 11

**Answer 2.09** 12

Consolidated reserves of company A are 13

$$60\% * [2000 + 500] + (200) - [1000 + 200] = 100. 14$$

**Answer 2.10** 15

Capital account at closing rate is  $7400 = 2000 * 3.7$  and at historical rate is 16  
 $6600 = 1000 * 3.0 + 1000 * 3.6$ . This implies a debit on Capital for 800 and  
a credit on Translation adjustments for 800.

## DIRECT CONSOLIDATION

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Retained earnings account at closing rate is  $2590 = 700 * 3.7$  and at<sup>1</sup> 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<sup>2</sup>  $1020 = 300 * 3.4$ . 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.<sup>3</sup>

## 7 CORRECT ANSWERS: QUIZZ 3<sup>1</sup>

### Answer 3.01<sup>2</sup>

Indirect financial wercentage<sup>3</sup>

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

<sup>4</sup>

giving a total of 44.8%.<sup>5</sup>

Indirect control percentage<sup>6</sup>

Company E is owned by<sup>7</sup>

- 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%

<sup>8</sup>

The only voting rights to take into account are the 20% owned by company D.<sup>9</sup>

### Answer 3.02<sup>10</sup>

Let's set the selling price to X.<sup>11</sup>

The consolidated value of the 80% shares is  $3520 = 80\% * [4000 + 400]$ .<sup>12</sup>

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.<sup>13</sup>

The value of X is 4020.<sup>14</sup>

### Answer 3.03<sup>15</sup>

Equity value of company A is  $1560 = 40\% * [3000 + 1000 + 400 - 500]$ .<sup>16</sup>  
Equity value of company B is  $240 = 12\% * [1000 + 800 + 200]$ .

Consolidated equity value is 1800.<sup>17</sup>

**Answer 3.04** 1**Consolidated reserves before transaction** 2

- For company A :  $(400) = 80\% * 2000 - 100\% * 2000$  3
- For company B :  $(160) = 48\% * 1000 - 80\% * 800$

giving a total of  $(560) = (400) + (160)$  4

**Consolidated reserves after transaction** 5

- For company A :  $(240) = 48\% * 2000 - 60\% * 2000$  6
- For company B :  $(200) = 60\% * 1000 - 100\% * 800$

giving a total of  $(440) = (240) + (200)$  7

The impact on A and B consolidated reserves is  $120 = (440) - (560)$  8

**Answer 3.05** 9**Option a: Not correct** 10

Year 1 closing assets and liabilities will not impact the cash flow statement 11 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** 12

A goodwill never appears in a cash flow statement. A goodwill is only a part of 13 the transaction amount.

**Option c: Not correct** 14

This amount of 400 corresponding to the acquisition price less the goodwill is 15 also a part of the acquisition price. It doesn't appear in the cash flow statement.

**Option d: Correct** 16

Whatever the consolidation method may be or the percentage acquired, the 17 only amount impacting the cash flow statement is the acquisition price.

## PART 7 CONSOLIDATION QUIZZ

### Answer 3.06 1

The first step when deconsolidating a company is to consolidate that company with the equity method. 2

The equity value would be  $1350 = 50\% * [2000 + 1000 + (300)]$ . 3

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. 4

### Answer 3.07 5

Equity value of company B =  $520 = 20\% * [2000 + 1000 + 200 - 600]$ . 6

The indirect group financial percentage in company A is  $64\% = 60\% + 20\% * 20\%$  and 3<sup>rd</sup> Parties indirect percentage is  $36\% = 100\% - 64\%$ . 7

Minority interests are  $1980 = 36\% * [3000 + 2000 + 500]$ . 8

### Answer 3.08 9

We first have to evaluate the consolidated equity of the subgroup which is 10

- Capital of company A = 3000
  - Reserves of company A = 2000
  - Result of company A = 1000
  - Consolidated reserves of company B =  $420 = 70\% * [2000 + 500 + 100] - [1500 + (100)]$
- 11

that is a total of 6420. 12

Considering a selling price of X, company P would make a profit of  $X - 60\% * 6420 = X - 3852$ . 13

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. 14

We find  $X = 4652$ . 15



## DIRECT CONSOLIDATION

### Answer 3.09 1

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  $\times (Y / X)$ " are transferred from the concerned company to the shareholder. 2

In our case, we speak about a ratio of  $\frac{1}{4} = 20\% / 80\%$  which applies to the remaining consolidated reserves  $180 = 200 + (20)$ . Indeed, dividends paid must be deducted because already transferred (paid) to the shareholder. 3

The correct answer is  $(45) = - 180 \times (20\% / 80\%)$ . 4

### Answer 3.10 5

Let's suppose the unknown acquisition price for the 30% is  $X$  and the resulting goodwill is  $G$ . 6

We are now able to calculate the consolidated equity used in the ratio, which is 7

- Equity of parent company = 3000 8
- Consolidated reserves of company A =  $70\% \times 2000 - [1000 + X - G]$   
 $= 400 - X + G$
- Minority interests of company A =  $600 = 30\% \times 2000$

giving a total of  $4000 - X + G$ . 9

But, in order to comply with Bankers requests, we have to reduce the equity by the goodwill. Consolidated equity becomes  $4000 - X$ . 10

After global integration, debts become  $4000 = 2000 + 2000$  and the ratio "Debts/Consolidated equity" is  $4000 / [4000 - X] = 2$ . 11

We easily find  $X = 2000$ . 12

# PART 8<sup>1</sup>

## INTERNATIONAL<sup>2</sup> CONSOLIDATION GLOSSARY<sup>3</sup>

