FINANCE AT A GLANCE

Major Types of Revenues (4)

Lesson 21

This is our last lesson on the major types of revenues.

Earnings of related companies

This form of revenue is also a result of investment, but is presented differently vis-a-vis dividend revenue, which was discussed in a previous lesson.

The presentation of revenue from subsidiaries or affiliates owned depends on the extent of ownership by the parent company.

1. Full ownership of another company

If the parent owns 100% of another company, the revenue (and the expenses) of the subsidiary are consolidated with those of the parent company

	Parent	Subsidiary	Group
Revenue	1,000	500	1,500
Expenses	700	300	1,000
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Operating profit	\$300	\$200	\$500

2. Control of another company

If Company A owns, for instance, 80% of Company B, Company A is said to control Company B. Company A is a majority owner of Company B. The revenues (and the expenses) of Company B are consolidated with those of Company A, but a minority interest corresponding to the share of third parties is deducted to arrive at the group profit. (For illustrative purposes, we assume a tax rate of 40%.)

	Company A	Company B	Group
Revenue	1,000	500	1,500
Expenses	700	300	1,000
	--------	--------	--------
Operating profit	300	200	500
Corporate tax	120	80	200
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Profit after tax	\$180	\$120	\$300
Minority interest (computed at 20% of Company B's profit after tax)			24

Profit for the shareholders of Company A			\$276

3. Influence over another company

If Company A owns only, for instance, 30% of Company B, Company A does not control Company B, but has significant influence over Company B. The revenues (and expenses) of Company B are not consolidated with those of Company A. However, the proportionate share of Company A in Company B's profit is presented as additional profit in Company A's income statement.

	Company A	Company B	Group	
Revenue	1,000	500	1,000	
Expenses	700	300	700	
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Operating profit	$300	$200	$300	
Profit from affiliate			60	[1]

			360	
Corporate tax	120	80	144	[2]
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Profit	$180	$120	$216	

[1] 30% of Company B's operating profit (30% of $200)

[2] Company A's corporate tax ($120) plus 30% of Company B's corporate tax (30% of $80)

Based on the above, only 30% of Company B's profit or $36 is consolidated with Company A's profit of $180, thus giving a group profit of $216.

The succeeding lessons with tackle the expenses portion of the income statement.

Until then,

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