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| Investments in Other Firms |
| Percent Ownership of Firm | Accounting Treatment | Valuation Methodology |
| Minority, Passive Investments (Investment <20% of other firm) |  Assets held to maturity are carried at book value with interest or dividends shown on income statement Investments available for sale are carried at market value, with unrealized gains/losses included as equity and not as income Trading investments are shown at market value with unrealized gains/losses shown on the income statementa |  For investments recorded on investing firm’s balance sheet at book value:1. Value firm in which investment held2. Multiply the firm’s value by the proportionate share held by the investing firm to determine the investment’s market value 3. Add the investment’s market value to the value of the investing firm’s nonoperating assets For investments recorded at market value, add to the investing firm’s nonoperating assets |
| Minority, Active Investments—Equity Method (Investment is between 20% and 50% of the other firm’s value) |  Initial acquisition value is adjusted for proportional share of subsequent profits/losses Market value estimated on liquidation and gain/loss reported on income statement |  Valuation Steps:1. Value the firms in which the investments are held2. Multiply each firm’s resulting market value by the investing firm’s proportionate ownership share 3. Add the resulting estimated value to the investing firm’s nonoperating assets |
| Majority Investments (Investment >50% of other firm’s value) |  Requires consolidation of both firms’ balance sheetsb Shares held by other investors are shown as a noncontrolling or minority interest in the shareholders’ equity account of the consolidated firms’ balance sheet |  If the parent owns 100% of the subsidiary, value the two on a consolidated basisc If the parent owns less than 100%, value the parent and subsidiary on a consolidated basis and subtract the market value of minority interestd |
| aFinancial services firms may have to revalue their assets more frequently to reflect changes in their market value. bA firm may be required to consolidate both firms’ balance sheets even if it owns less than 50% if its ownership position gives it effective control of the other firm.cIf the subsidiary is in a different industry from the parent, a weighted average cost of capital reflecting the different costs of capital for the two businesses should be used to discount cash flows generated by the consolidated businesses.dIf a subsidiary is valued at $500 million and the parent owns 75% of the subsidiary, the value of the subsidiary to the parent is $375 million (i.e., $500 million – 0.25 × $500 million to reflect the value owned by minority shareholders). |