BrizoConsol

B R I Z O

BRIZOCONSOL ACADEMY • METHODOLOGY SERIES

BRIZO Casebook

Real-Life Examples

Five consolidation failures — diagnosed through the BRIZO methodology.

How to Read This Casebook

Each case in this casebook presents a consolidation failure drawn from the kinds of errors that occur in practice. They are not theoretical. Every one of them has appeared, in some form, in real group closes.

Each case is structured around the same five questions: what was the situation, what went wrong, which BRIZO phase failed and why, how would BRIZO have detected the problem before it propagated, and what does the correct result look like.

The cases are not arranged by severity. They are arranged to demonstrate BRIZO's diagnostic value across different phase failures. Cases 1 and 4 illustrate failures at R and B respectively — two different gates, two different failure modes. Cases 2 and 5 both involve the B and I phases but for entirely different reasons.

The purpose of this casebook is not to suggest that BRIZO prevents human error. It does not. Its purpose is to show that BRIZO makes errors detectable at the earliest possible point — at the gate where the condition for the next phase cannot be confirmed — rather than at O, where the cost of correction is highest.

CASE	TITLE	PHASE THAT FAILED
1	Unreconciled Intercompany Loan	R Reconcile Relationships
2	Mid-Year Acquisition	B Bring Data Together
3	Unrealised Profit in Inventory	Z Zero Group Effects
4	Associate Incorrectly Treated as Subsidiary	B Bring Data Together
5	Multi-Currency Group	I Integrate Adjustments

Unreconciled Intercompany Loan

PHASE FAILED

R

SITUATION

A parent entity records a loan receivable from its subsidiary of $1.2 million. The subsidiary records a loan payable to the parent of $1.0 million. The $200,000 difference arises from a timing difference on accrued interest — the parent has accrued interest income that the subsidiary has not yet recognised as an expense. Both entities are reporting in good faith. No one has circulated the balances for agreement before the consolidation proceeds.

WHAT WENT WRONG

The intercompany loan was never reconciled between the two entities. R was skipped or treated as a formality. The group proceeded to Z using each entity's unagreed figure. The elimination entry was sized to the parent's $1.2M receivable — but the subsidiary's payable was only $1.0M. After elimination, a $200,000 credit balance remained in the group's liabilities with no corresponding asset. The group balance sheet did not balance, or balanced only because the residual was absorbed into an unexplained variance account.

PHASE THAT FAILED

R is responsible for ensuring all intercompany balances are circulated to both parties and agreed to one set of figures before any elimination is attempted. The R gate cannot close until every pair of entities has confirmed their shared balances. In this case, the intercompany matrix would have shown the $200,000 mismatch at the point of circulation. R's gate did not close — but the group proceeded to Z anyway.

HOW BRIZO DETECTS IT

At the R gate, the intercompany matrix requires both entities to confirm their balance. The parent confirms $1.2M receivable; the subsidiary confirms $1.0M payable. The matrix flags a $200,000 mismatch. BRIZO does not permit Z to begin until this is resolved. The gate is open; the close cannot advance.

CORRECT RESULT

The two entities investigate and agree that the parent's figure is correct — the interest accrual belongs in the subsidiary's books. The subsidiary records the $200,000 interest expense and payable. Both entities now confirm $1.2M. R's gate closes. Z eliminates $1.2M receivable against $1.2M payable — zero residual. O certifies a balanced group balance sheet with no unexplained variance.

Mid-Year Acquisition

SITUATION

A parent acquires 80% of a subsidiary on 1 April. The group's reporting period ends on 31 December. The consolidation team includes the subsidiary's full-year trial balance — 1 January to 31 December — rather than restricting it to the post-acquisition period from 1 April. Goodwill is calculated using year-end net assets rather than acquisition-date net assets.

WHAT WENT WRONG

B included the subsidiary's data without confirming the correct period boundary. Three months of pre-acquisition results — income, expenses, and balance sheet movements from January to March — were consolidated into the group as if they were post-acquisition. Goodwill was misstated because it was calculated against year-end net assets rather than net assets at the acquisition date. Group revenue and profit were overstated by the pre-acquisition trading.

PHASE THAT FAILED

B's job is to ensure every entity's data covers the correct period before anything downstream begins. For a mid-year acquisition, the correct period is the post-acquisition window only. B's gate check requires confirming: which entities are in scope, from which date, and that their trial balances reflect that boundary. In this case, B's gate was treated as a data collection exercise rather than a scope confirmation exercise. The gate closed on the wrong data.

HOW BRIZO DETECTS IT

At the B gate, the consolidation perimeter document must specify each entity's consolidation start date. A mid-year acquisition flags an entry date of 1 April, which immediately requires a restricted-period trial balance. BRIZO's B gate check — 'is each entity's data covering the correct period?' — would reject a full-year TB for an entity with a 1 April acquisition date and require a nine-month TB before B closes.

CORRECT RESULT

A restricted trial balance covering 1 April to 31 December is extracted from the subsidiary's records. Goodwill is calculated using the subsidiary's net assets as at 1 April — the acquisition date — not year-end. Nine months of post-acquisition results are consolidated into the group. Pre-acquisition results remain in the subsidiary's standalone accounts and are excluded from the group income statement.

Unrealised Profit in Inventory

SITUATION

Entity A sells goods to Entity B at a transfer price that includes a $300,000 profit margin. At the group's period end, Entity B still holds one-third of those goods in closing inventory — representing $100,000 of unrealised profit from the group's perspective. The consolidation team eliminates the $300,000 intercompany sale and corresponding cost of sales. It does not separately eliminate the unrealised profit sitting in closing inventory.

WHAT WENT WRONG

Z eliminated the intercompany revenue and cost of sales correctly, but treated this as the complete job. The $100,000 unrealised profit embedded in Entity B's closing inventory was not removed. From the group's perspective, that inventory is held at a cost that includes a margin charged by one group entity to another — a profit the group has not yet earned from an external customer. The group income statement overstated profit by $100,000 and the group balance sheet overstated inventory by the same amount.

PHASE THAT FAILED

Z's scope is not limited to eliminating the face value of intercompany transactions. It extends to removing all group effects — including unrealised profit on inventory still held within the group at period end. The Z gate requires a completeness check: for each category of intercompany transaction eliminated, are there any residual effects still sitting in the group's assets? Unrealised profit on closing inventory is one of the most common residual effects and has its own dedicated Z checklist item.

HOW BRIZO DETECTS IT

BRIZO's Z gate checklist includes a specific item: 'Eliminate unrealised profit on intercompany inventory still held at period end.' This forces the consolidation team to ask, for every intercompany sale during the period: does the buyer still hold any of these goods? If yes, what profit margin is embedded in the closing inventory figure? The gate does not close until this question is answered and the adjustment is made.

CORRECT RESULT

In addition to eliminating the $300,000 intercompany sale, the team records: Dr Group Cost of Sales $100,000 / Cr Inventory $100,000. This restates Entity B's inventory to its cost to the group — eliminating the intercompany margin. Group profit is reduced by $100,000. Group inventory is reduced by $100,000. When Entity B eventually sells the goods to an external customer, the full margin will be recognised at that point in the next period.

Associate Incorrectly Treated as Subsidiary

SITUATION

The group holds 25% of Company X. There is no board representation beyond one non-executive director seat, no ability to direct the financial and operating policies of Company X, and no other indicators of control. Company X is an associate — significant influence exists, but control does not. The consolidation team has historically included Company X as a fully consolidated subsidiary, line by line, on the basis that 'it's part of the group.'

WHAT WENT WRONG

Company X was included in the consolidation perimeter with the wrong classification. Its assets, liabilities, income, and expenses were consolidated line by line into the group, inflating the group balance sheet and income statement. Goodwill was calculated as if this were a business combination. Intercompany transactions between the group and Company X were eliminated as if Company X were a subsidiary, when they should have remained in the group financials as third-party transactions (since Company X is not controlled). NCI was calculated at 75% — a percentage that has no meaning when no control exists.

PHASE THAT FAILED

B's scope confirmation requires not only identifying which entities are in the group but correctly classifying each one: subsidiary (control — full consolidation), associate (significant influence — equity method), joint venture (joint control — equity method under IFRS 11), or third party (outside the group entirely). The B gate check 'confirm control assessment for each entity' would require documented evidence of control under IFRS 10 for any fully consolidated entity. A 25% holding with one board seat does not meet that threshold.

HOW BRIZO DETECTS IT

At the B gate, the consolidation perimeter document lists each entity with its classification and the basis for that classification. For Company X: 25% holding, one non-executive director, no ability to direct financial and operating policies. BRIZO's B gate requires the preparer to confirm the control basis for every fully consolidated entity. Company X cannot pass this check. It is reclassified as an associate before B closes.

CORRECT RESULT

Company X is removed from full consolidation. All its assets, liabilities, income, and expenses are derecognised from the group. The investment is recorded as an equity-accounted investment, initially at cost. At I, the group's 25% share of Company X's post-acquisition profit or loss is recognised, and 25% of OCI movements are reflected. Transactions between the group and Company X are third-party transactions — they are not eliminated. The group balance sheet is smaller but correctly stated.

Multi-Currency Group

PHASE FAILED

I

SITUATION

A USD-functional parent has a GBP-functional subsidiary. At period end, the consolidation team translates the subsidiary's financial statements into USD. The team applies the closing rate to both the balance sheet and the income statement — using one rate throughout rather than the closing rate for the balance sheet and the average rate for the income statement. The resulting translation difference is taken to the income statement as an exchange gain rather than to OCI as a currency translation adjustment (CTA).

WHAT WENT WRONG

The translation was performed using incorrect rates and incorrect classification of the balancing difference. Applying the closing rate to the income statement overstates or understates income depending on rate movements during the year. Taking the translation difference to P&L instead of OCI inflates or deflates reported profit with a figure that is not a trading result — it is a structural consequence of holding a foreign subsidiary. Group profit is misstated. OCI is understated. The CTA reserve in equity is missing entirely.

PHASE THAT FAILED

CTA is an I-phase consequence — it arises from the ownership of a foreign subsidiary and must be determined once per period using the correct methodology and posted to the correct location (OCI, not P&L). The I gate requires a dedicated CTA schedule for each foreign subsidiary, showing: balance sheet items translated at closing rate, income and expense items translated at average rate, equity items translated at historical rates, and the balancing CTA figure taken to OCI. This schedule is an I deliverable. Without it, I's gate cannot close.

HOW BRIZO DETECTS IT

BRIZO's I gate deliverables include a CTA schedule for every foreign subsidiary. The schedule is a required output — not optional. At the I gate check, the reviewer confirms: (1) balance sheet translated at closing rate, (2) P&L translated at average rate, (3) CTA posted to OCI, (4) OCI movement reconciles to the opening and closing CTA balance. If the team has taken the translation difference to P&L, item (3) fails. The gate does not close.

CORRECT RESULT

The subsidiary's balance sheet is translated at the period-end closing rate. The subsidiary's income statement is translated at the average rate for the period. Equity items are retained at historical rates. The balancing figure — the CTA — is taken to OCI, not P&L. In the group's statement of other comprehensive income, the CTA is presented as a separate line. The CTA reserve in equity accumulates over time and will be recycled to P&L only when the subsidiary is disposed of.

Five Cases. Three Lessons.

1. Errors are phase-specific, not random.

Every case traces to a specific gate that failed to close. The error did not occur in the consolidation at large — it occurred at a defined point in the sequence where a condition was not established before the next phase began. Knowing which gate failed tells you exactly what to fix and exactly how far back to rewind.

2. The cost of an error is proportional to how late it is found.

In every case, the error would have been cheapest to catch at the gate where it originated. An unreconciled loan caught at R costs one conversation. The same error caught at O costs a full rerun of Z and a restatement of the group balance sheet. BRIZO does not eliminate the possibility of error — it concentrates detection at the earliest possible point.

3. BRIZO's gate checks are not optional.

In each case, there was a moment — a gate check — where BRIZO would have required a specific condition to be confirmed before the close could advance. In each case, that check was either not performed or treated as a formality. The methodology only works if the gates are real. A gate that can be bypassed under close pressure is not a gate — it is a suggestion.