

## CONSOLIDATED FINANCIAL STATEMENTS: THE OVERALL PICTURE OF A CORPORATE

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### ABSTRACT

*In general, an economic unit (which is also called group) is made from at least two legally independent institutions: one (original) control unit and (at least) a controlled unit (subsidiary specialized purpose unit in the private sector). This article is related to consolidate financial statements (CFS), i.e. financial details presented about the activities of the group of organizations such as it was a single unit. Consolidated financial details are preparing for accounts by an original company where the record of his subsidiary companies has also been mentioned. The main financial statements are balance sheet, benefits and loss details and cash flow details. When a parent company combines the data of its subsidiary and prepare the clubs, the financial details show up as a whole. Group structure public companies required to disclose their financial interprets at regular intervals. Detailed should generally be based on accepted accounting principles. If a company has more than one business, then they prefer to separate the business line with different management. Consolidated financial details are a practice adopted by the parent company, where the financial statements of subsidiary companies are added to parents and show results. CFS does not summon the SES of different institutions related to the economic unit, but uses connectivity units and its controlled institutions using the consolidation techniques. Consolidated financial details helps in painting a company's financial situation. To now the company's actual financial situation for the stakeholders of the company is actually important consolidated financial statements help stakeholders help the company's exact property and abilities. In the standalone financial statement only the investment amount is shown in the assistant, reflects the aggregate assets of the consolidated company, which includes the original and assistant property. Therefore the aim is to present a great picture for the decision making process.*

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**Keywords:** Financial Statements, Parent, Financial Position, Consolidation, Control, Mandatory.

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### Introduction

Consolidated financial details are the financial details of the group presented as a single enterprise. In addition to taxations, invest laws, foreign exchange and other business objectives, institutions can choose to perform their own operation through many institutions instead of the single legal entity. However, all these institutions live in the ultimate parental control. Therefore, the financial detail of the parent alone does not represent the full economic picture of the financial condition or performance of the parents. Users of financial statements would like to know the picture of the group overall. Therefore, there is strong case for the mandatory presentation of consolidated financial details so that economic reality can be reflected. Consolidated financial statements usually include consolidated

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balance sheet, consolidated details of profit and loss, and notes, other details and explanatory content that become an integral part of it. Consolidated cash flow details are prepared if any parent present their own cash flow details. Consolidated financial details are as presented in the same format, as far as parents had adopted for their different financial statements. The listing agreement was only compulsory to publish consolidated financial details to the companies listed in the 32%. Neither the company act, 1956 had compulsory to prepared financial descriptions nor for companies accounting standard require companies to prepared consolidated financial details. With inserting section 129 (3) in the companies act 2013 (act), all companies including non-listed and private companies with one or more subsidiary companies will have to prepare consolidated financial statement (CFS) in addition to different financial statements.

### **Statutory Need of Consolidated Financial Statements**

Prior to the companies act, 2013, there was no legal requirement to make consolidated financial details for companies. The company act, 1956 was silent on this aspect. Although the accounting standard was making it mandatory for listed companies to prepare consolidated financial statements, because the understanding of financial statements and the better presentation of financial details is very important for shareholders. With the introduction of the companies act, 2013, now it is mandatory to prepare consolidated financial details for one or more subsidiary companies. In relation to consolidated financial statement, some provisions of the companies act, 2013 are as follow:

- **Section 129(3):** where there are one or more subsidiary companies including a company's affiliate company and joint venture, it shall prepare consolidated financial details of the company and all subsidiaries, in addition to its own financial details, in the same form and manner as it prepares own financial details. The board of directors will approve their first before signing the consolidated financial details, because they approve their own financial details will also be presented while presenting their financial details in the company's annual general meeting. An explanation with the key features of the financial details of its components, which are its subsidiary companies and colleagues, will be attached to their own financial details.
- **Section 129(4):** the provision applicable for the preparation, adoption and audit of the financial details of a holding company shall, including necessary changes, also apply to consolidated financial details.
- **Section 129(6):** the central government may, by notification, on application of itself or a class or classes of companies, exempt companies of any class or class from complying with any requirement of section 129 or under the rules framed thereunder, if such exemption is deemed necessary to be granted in public interest and such exemption may be granted with the condition mentioned in the notification.
- **Companies (Accounts) Rules, 2014:** schedule of the consolidated financial details act will be prepared according to the provisions of III and approved AS. However, a company does not need to prepare consolidated financial details under accounting standards, it will be sufficient, if the company comply the provision of consolidated financial statements provided in the schedule III of the act.

### **Advantages and Disadvantages**

#### **Advantages**

Some of the advantages are:

The financial health of the company can be applied by a look. It features the entire property and obligation of a company, which help decide by potential investors.

It reduces the burden of preparing different financial details for all subsidiary companies and also reduces carbon emission. It requires a lot of paper a separate balance sheet and submits their hard copy.

It helps in promoting transparency. In standalone financial details, it is difficult to access the health of the parent's subsidiary companies. All in a consolidated balance sheet is available in all statements.

The correct account of the cross-cell effect is kept. This is a common mistake that the help of the company has the benefits on sale for sale, that's not right.

**Disadvantages**

Some of the disadvantages are:

Bad performance of the parent company can be overwhelmed on the excellent performance of the subsidiary company. Therefore, the real picture is sugar coated and suggested to fool the audience.

If there is a lot of cross transactions between parent and assistants and proper accounting is not followed, it will present a high sale, which is not really true.

Since everything is combined, the proper analysis is difficult on the basis of the ratio. Rate is helpful than co-workers companies. In consolidated description, no field is specific financials. As everything is combined, the area is specific analysis is hard.

**Responsibility for Consolidated Financial Statements**

Preparing of consolidated financial details there is no easy task. It has partnerships of various parties including its auditor. Undoubtedly the auditor does not prepare the integrated financial statement but its role in creating consolidated financial details is the most important and all its concerns will be kept in mind and will become part of it. The primary responsibility of consolidated financial statement is of the original company. Its responsibilities find out that which component or part of the consolidated financial details will be part and the searchable segment for reporting. As well as disclosures relating to related parties and their transactions, consideration should also be given to ensuring that accurate and full information related to financial components are obtained from all the helpful and colleagues. As we said that the role of the auditor is undoubtedly the most important, but it is the mainly related to expressing opinion on consolidated financial details, with the word, whether it has been prepared in all physical cases according to the financial reporting framework. He is also worried about ensuring whether all relevant accounting standards like 21, 23, 27 has been compliance and consolidated financial details are according to the stand-alone financial details of the original company and subsidiary. He is also responsible for following the standard audit process by the Indian chartered accountants institute and other auditors.

**Procedures to Prepare the Financial Statement**

In order to furnish this statement, the below mentioned steps would be taken:

While preparing the details, it is important to add and tally all the items together with the original company and its subsidiary and to get total. The original company should add liabilities, property, expenses, shares and earning.

Investment made in equity share of its subsidiary companies and parents' subsidiary companies by the parent company.

In addition to investing on additional cost equity shares by the parent company, on which day is available in such a subsidiary, it should be shown as goodwill, when the value of the parent company's investment to the subsidiary is less than the parent company's equity share of the subsidiary.

When the value of the parent company's investment to the subsidiary is less than the equity share of the parent company of the subsidiary. The date on which is invested should be described as the capital reserve.

A small part of interest in the net incomes of the consolidated subsidiary company for reporting time should be accepted and regulated against the group's incomes and the owner should be deposited or the original company.

Net income of the consolidated subsidiary company for reporting time a small part of the interest should be accepted and should be provided in consolidated balance sheet.

**Adjustments to be Made in Consolidated Financial Statements**

Various adjustments have to be made while preparing the consolidated financial statements. In those adjustments, the influence of different important transactions among the duration of the financial details of the subsidiary, the associate and joint venture and the financial details of the financial details, a similar accounting policy will be used and it will be ensured that the color of the alignment interest has been calculated and correctly adjusted and the consolidated financial details has been prepared in the same format as is used by the holding company. Also, note that the accounts are included in the integrated financial statements, except those notes, that are compulsory for the aim of showing the right and fair view of the consolidated financial details. Any additional legal detail in consolidated financial information has been disclosed which can affect

the right and fair approach of financial details. Last but not the least general accounting policies will be followed in making consolidated financial details. Verifies have been done in relation to adjustments according to the applicable accounting standards and it has been authorized by the parent's management or holding company.

#### **Audit of Consolidated Financial Statements**

Another most crucial question arises whether the audit of consolidated financial details is compulsory? If yes, who will the auditor of consolidated financial details, as we said that the company was quiet on the act, 1956 but the company act, 2013 has clearly specified and said that the audit of consolidated financial details is mandatory and the auditor will be the auditor of financial details alone of the original company. Although he can use the work of the auditor, audience and joint ventures, and they will be liable to cooperate the accounting of all consolidated financial details. While auditable financial statement, the auditor must have to examine the entire procedure as we have discussed above. There is no procedure available separately for the audit of consolidated financial details, but the phase rate of the above steps will be followed and will be used to check the procedure.

#### **Conclusion**

So, the full discussion has given the importance and complexity of the least preparation of consolidated financially. It is undoubtedly said that we cannot understand the true status of any company without its consolidated financial details, when its parent company. It is compulsory to prepare consolidated financial descriptions to keep an overall real image so that investors can actually know real events. Since the procedure is much complex, it does not need to say that an investor cannot do this on its own. Maybe the belief of consolidated financial details has not come in front: due to incorrect financial information, the investor will have taken the wrong decision during its investment period. Therefore, it is extremely important to prepare consolidated financial details. This conception is at least four decades old worldwide and all international permanent companies are preparing their consolidated financial details for a long time. Indian companies also making it soon, they felt that to become a global partner of the world economy and to enter its presence in the world market, to catch investors around the world, they should not be equal to all international companies in the product or marketing strategy. But also, on the disclosure part in their financial details, staying in the crowd of competitors without providing comparative financial details is not possible at all. Therefore, consolidated financial details in relation to the present scenario are not a luxury, but it is basic requirement of financial demonstration and divulgation.

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