

## CONSOLIDATED FINANCIAL STATEMENTS: AN ARMED TO FINANCIAL REPORTING

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### ABSTRACT

*Think about a situation. You have invested in the equity of the company say Z Ltd. your stake is five percent. So whatever company is earning, its five percent belongs to you. It is quit easy for us to calculate you earning per share from the profit and Loss Account of the company. But imagine if the company has invested into forty five percent of capital of another company say A Ltd. now whatever A Ltd. is earning, its forty five percent belong to Z Ltd. and five percent of it belongs to you. At the same time the forty five percent of total net assets of A Ltd. is of Z ltd., whose five percent is your in addition to five percent of net asset of Z ltd. isn't it becomes vary confusing, because to calculate your actual earnings per share. As well as your share in Net Assets of your company, which has investment in other companies too? Situation becomes more complicated if your Parent company has invested in more than one company. We might have to go through with the financial statements of all those companies in which investment has been made by the Parent company. So to come out from these difficulties and to make situation more easier, the concept of Consolidated financial statement has emerged which makes easy to calculate your share in profit, Net Assets and earnings per share taking into count the investments made by the parent company. This all calculation is done by parent company in the form of Consolidated Financial Statements.*

**KEYWORDS:** *Consolidated Financial Statements, Subsidiary Company, Associate Company.*

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### Introduction

Consolidated Financial Statements are the overall presentation of all financial statements of group companies in one set of financial Statements. Consolidated Financial Statements is presented for a group of entities under the control of a parent. A group comprises a parent and its subsidiaries and Associates. Accounting Standard 21 is applicable to the company which prepares consolidated financial statements. Consolidated Financial Statements generally includes consolidated Balance Sheet, consolidated Profit & Loss Account, Consolidated Cash Flow Statement, notes to Accounts, and Other explanatory material. A user of the financial Statements finds himself in the better position when he has consolidated financial statements so as to make evaluation and analysis and compare its position with other entities too. The overall position of the company is at one glance and at one sight. Which make user comfortable and easy to make further investment decisions in the company.

### Statutory Need of Consolidated Financial Statements

Before Companies Act, 2013, there was no statutory requirement for companies to make consolidated financial Statements. Companies act, 1956 was silent on this aspect. However Accounting Standard was making it compulsory for listed companies to prepare Consolidated financial Statements as it is of utmost importance for share holders understanding of financial Statements and for the better presentation of financial Statement. With the introduction of companies act, 2013, it is now compulsory for companies having one or more subsidiary to prepare the consolidated financial Statements. Few of the provisions of the companies Act, 2013 regarding Consolidated Financial Statements are

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- **Section 129(3):** Where a company has one or more subsidiaries, including associate company and joint venture, it shall, in addition to its own Financial Statements, prepare consolidated financial Statements of the company and of all the subsidiaries in the same form and manner as it prepares its own financial Statements. The Board of Directors shall approve the consolidated financial Statements before signing the same, as they approve their own financial Statements. Consolidated financial Statements shall also be presented in the Annual General Meeting of the company when presenting its own financial statement. A Statement having Major features of Financial Statements of its Components that is its subsidiaries and Associates shall be attached along with the financial statements of its own.
- **Section 129(4):** Provisions applicable to the preparation, adoption and audit of the financial statements of a holding company shall, mutatis mutandis, also apply to the consolidated financial statements.
- **Section 129(6):** The Central Government may, on its own or on an application by a class or classes of companies, by notification, exempt any class or classes of companies from complying with any of the requirements of section 129 or the rules made there under, if it is considered necessary to grant such exemption in the public interest and such exemption may be granted along with conditions as mentioned in the notification.
- **Companies (Accounts) Rules, 2014:** The consolidated financial Statements shall be made in accordance with the provisions of Schedule III to the Act and the applicable AS. However, a company which is not required to prepare consolidated financial Statements under the Accounting Standards, it shall be sufficient if the company complies with provisions on consolidated financial statements provided in Schedule III of the Act.

#### **Responsibility for Consolidated Financial Statements**

Preparation of Consolidated Financial Statement is not at all an easy task. It has involvement of various parties including its auditor. No doubt auditor do not prepare consolidated financial Statements but his role in making of consolidated financial statements is at utmost importance and all of his concerns shall be taken into consideration and become or form the part of it. The primary responsibility for Consolidated Financial Statement is of the parent company. Its responsibilities includes to finding out which will be the component or part of the Consolidated Financial Statement and which one will be the reportable segments for segment reporting. At the same time consideration is also to be given for disclosures related to related parties and their transactions as well as to make sure that accurate and complete information relating to financial from all subsidiaries and Associates is obtained for proper consolidation adjustments. As we said the role of auditor is no doubt at utmost importance but he is primarily concern with expressing opinion on the consolidated financial Statements, with the wordings that whether it has been prepared in all material respect as per Financial Reporting Framework. He is also concern to ensure that whether compliance with all relevant Accounting Standards such as 21, 23, 27 has been done and consolidated financial statements are as per Stand Alone Financial Statements of Parent company and Subsidiary company. He is also responsible for following the standard Audit procedure as has been prescribed by Institute of Chartered Accountants of India and other Auditors.

In preparation of consolidated financial statements a long procedure has to be adopted. The work starts with the planning of preparation of Consolidated Financial Statements. First of all the detailed understanding of the Accounting Policies of all that is parent company, Subsidiary company and Associates & Joint venture has to be taken. We have to determine the Nature, timings and extent of the work of team of components that is Subsidiaries, Associates and Joint Ventures, required so that it can be informed to them well in advance and they will ready with the all necessary documents. It has also to be planned that a proper coordination between the Parent company and Subsidiary, Associates and Joint venture is existing so that no obstacle is created. Before going into the preparation process it has to be ensured that Parent company actually controls the composition and according to the percentage of investment holding, the nature of component is decided, that is whether it is Subsidiary or Associate or Joint venture. (Here it may be noted that a company is treated as Subsidiary when it's more than fifty percent capital is held by other company and when it is equal or less than fifty percent but more than twenty Percent it is treated as Associate.) For this purpose it should prepare first a list of Subsidiaries, Associates and Joint ventures which is to be included in Consolidated Financial Statement and ensure they all are included in Consolidated Financial Statement unless it has been excluded for specified reasons. Such specified reasons included two reasons. The first one is that the subsidiary is temporary,

and the second one is subsidiary or Associate is under the Long term restriction due to which it is not allowed to transfer the funds to the Parent company. It should be ensure that any subsidiary or Associate is not excluded from the consolidated Financial Statement for any other reason and reason shall be disclosed in the Financial Statements. To ensure more, we should review the previous year's Consolidated Financial Statements, how the parent company is identifying their subsidiaries and Associates, check the investment schedule and annexure and statutory records if available. Any changes which has taken place from last year in shareholding pattern such as any subsidiary or associate has ceased to be Subsidiary or Associate or any Subsidiary has become Associate or Associate has become Subsidiary, shall be accounted properly in the Consolidated Financial Statements. If entity (Parent Company) has made any investment in any other entity such as in Partnership firm or Proprietor business or in HUF etc. the same shall be properly shown in the Financial Statement both in Stand Alone as well as in Consolidated. There are also little information which is exclusively included in Consolidated Financial Statement and do not included in Stand Alone Financial Statement at all. Such information may include Disclosures regarding subsidiaries, associates and joint ventures, and Proportion of items included in the CFS to which different accounting policies have been applied.

### **Adjustments to be made in Consolidated Financial Statements**

While preparing the consolidated Financial Statement various kinds of adjustments have to be made in it. Those adjustments may include effect of various significant transactions that occur between the period of financial Statements of Subsidiary, Associate and Joint Venture and the period of financial Statement of Parent Company. While preparing Consolidated Financial Statements uniform accounting policy shall be used and shall be ensured that minority interest has been calculated and adjusted correctly and Consolidated Financial Statement has been prepared to the extent in the same format as used by the holding company. Also the notes to account which become the part of financial Statements of Subsidiary and Associate has been included in Consolidated Financial Statement, in addition to those notes to Account which are necessary for the purpose of showing True & Fair view of Consolidated Financial Statement. Any Additional Statutory Information which could have an impact on True & Fair view of the Financial Information has been disclosed in the Consolidated Financial Information. Last but not the least normal Accounting Policies shall be followed in preparation of Consolidated Financial Statements. Verification is to be made regarding adjustments to be made as per the applicable accounting standards and the same have been authorized by the management of the Parent or Holding Company.

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

Another very important question arises that is audit of Consolidated Financial Statement is necessary? If yes than who will be the Auditor of Consolidated Financial Statements. As we said that companies Act, 1956 was silent on it but Companies Act, 2013 has clearly specified and said that Audit of Consolidated Financial Statement is Compulsory and Auditor shall be auditor of the stand alone financial Statement of Parent Company. However he may use the work of Auditor of Subsidiary, Associate and Joint ventures and they all will be liable to cooperate to the Auditor of Consolidated Financial Statements. The auditor while conducting Audit of Consolidated financial Statement shall have to check the whole process as we discusses above. There is no separate procedure provided for Audit of Consolidated financial Statement rather above steps shall be followed step by step and shall be used to check the process.

### **Conclusion**

Well the whole discussion has at least realised us the importance and complexity involved in preparation of Consolidated Financial. This is undoubtedly said that we cannot understand the actual position of any company without its consolidated financial Statement, when it is a parent company. To have an overall True picture it is mandatory to prepare the Consolidated Financial Statement so that investor can truly know the real happenings. Since the process is very complicated, hence it is not all require to say that an investor cannot do this at his own. Perhaps the concept of consolidated Financial Statement has not emerged; the investor would have taking the wrong decision through his investment period because of the wrong financial Information. Hence preparation of consolidated financial statement is of utmost importance. The concept is old at least of 4 decades at the world level and all the international standing companies preparing their consolidated financial statements since long time. Indian companies too started making it soon they realised that to become a Global partner of world

economy and to put their attendance at world market, to capture investors around the globe, they have to be at par with all international companies not in product or marketing strategy but also on the disclosure part in their financial statement. Without providing them comparative Financial Information it is not at all possible to be in crowd of competitors. Hence concerning the current scenario the consolidated financial Statements are not a luxury rather it is a basic need of financial presentation and disclosure.

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