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Consolidation accounting is a method of accounting used when a parent company owns subsidiaries (from 20% to upward of 50%). More than just joining together, consolidation in accounting is a list of precise processes fundamentally rooted in accountings best practices. Consolidation accounting results in consolidated financial statements, which is how an organization and its decision-makers know how the company is performing. Not to be confused with consolidated financial statements (which are part of consolidation accounting), consolidation accounting joins the finances of subsidiary branches with the finances of the overarching company. So, if you, as a parent company, oversee two subsidiaries, it would be inaccurate and against the law to only report only on the parent companys revenues. Enter consolidation accounting and its processes. Simply put, the CFO and FP&A departments will join the parent companys numbers with the subsidiaries numbers to present accurate and complete pictures of an orgs financials. The processes of consolidation accounting demand that all entities follow a strict set of accounting rules. Some of the most important and most common regulations to remember are: Both GAAP and IFRS have distinct guidelines for entities reporting consolidated financial statements with subsidiaries. Declare minority interests. In other words, disclose the stock shares not owned by the parent company. The financial reporting statements must be prepared in the same way for the parent company as they are for the subsidiary company. Completely eliminate intragroup transactions and balances. While the above is not a complete list of all the consolidation rules in accounting, this comprehensive list is a good place to get started. Based on the percentage of the parental companys control, parent companies and their subsidiaries fall into one of the following three categories. It is essential to understand which category your company is in so that your finance departments report to the appropriate consolidation standards meant for your organization and its branches. For this method of consolidation accounting, the parent company owns more than 50% of the subsidiary. Therefore, the reporting and accounting of the subsidiary are under the complete control of the parent company. In this method, the parent companys balance sheet reports the subsidiarys assets, liabilities, and equity. Furthermore, all the subsidiary revenues and expenses are assigned to the parents income statement. The subsidiary and parent income statement is reported as one. Accordingly, there is a 100% combination of all the revenue generated by the child/subsidiary to the parent. If a parent company has $2 million in asset totals and the subsidiary has $500,000, the combined assets are $2.5 million ($2 million + $500,000). (On the consolidated balance sheet, under the shareholders equity section, the parent company will list its capital stock and investment made into the subsidiary.) In this consolidation accounting method, the percentage contributed by the parent company to the subsidiary is the percentage used to generate the financial reporting statements. Basically, this method distributes an entitys assets, liabilities, equities, income, and expenses as per its contribution to the venture. Therefore, any parent-subsidiary entity (no matter the investment percentage) can choose this method of reporting. Those opting for the proportional consolidation method do so because it provides more detailed and accurate reports. This method allows each entity to understand the operational efficacy of the joint venture, including things like production costs and profit margins. Company 1 owns 50% of the controlling interest of Company 2. Therefore, Company 1 records the investment at 50% of the assets, liabilities, revenues, and expenses of Company 2. So, if Company 1 has revenues of $200 million and Company 2 has revenues of $80 million, Company 1 would have $240 million. In this consolidation accounting method, the investor lacks full control over the subsidiary but still wields significant influence. Parent companies/investors owning less than 20% to over 50% of a companys shares may use the equity consolidation method for reporting. This method is often used when one entity in a joint venture clearly wields more influence over the venture (than the other entity). This method assesses the profits earned by investments in other companies. If a company holds more than 20% of another companys stock, the company has significant control where it can exert influence over the other company. The initial investment is recorded at cost, and each quarter adjustments are made depending on the value at the end of the period. Company 3 buys 20,000 shares of Company 4 at $20 per share. Company 3 records the initial investment cost as $400,000. Then, any profit/income from the investment in the future will reflect the changes in the value of the investment. For parent companies of all sizes, consolidation accounting is a significant part of what your FP&A and CFO functions do. To support your CFO and accounting functionaries (and really, for all of your FP&A needs) as your company grows, Datarails is the solution to all of your consolidation needs. When you consolidate your information with Datarails, its unique mapping takes all of your disparate sources of information and consolidates it into one places. This includes FX conversions, and inter-company transactions. Datarails budgeting software integrates easily with current systems and consolidates them to deliver actionable insights. With its seamless integration, Datarails also offers in-depth analysis and real-time results. So, as your company grows and takes on more entities, its time to stop the manual processes and endless Excel templates. Instead, we have software that optimizes your existing infrastructure and makes all of your financial reporting processes work for you. To learn more about how Datarails can help you automate and streamline your consolidation accounting and financial reporting, try a free demo today! Or, maybe, you are interested in reading more about how consolidation accounting works IRL? Check out our success stories and the use cases of Euclid Systems. Company structures nowadays can be very complex and include many different entities under one umbrella. We see mergers and acquisitions on a frequent basis which means that oftentimes, entities need to report on a consolidated basis. Consolidated financial statements can be a challenge for accountants, especially when it involves multiple entities. Between adjustments and elimination entries, the preparation process can get messy really quickly. In this article, we will demystify how to prepare consolidated financial statements.In consolidated financial statements, the results of the entities subject to consolidation will be merged together making these entities appear like one single entity. In reality, these entities operate separately and are different companies, however, for the purpose of consolidation, there is no separate reporting prepared for each of the entities on an individual basis. The consolidated financial statements will be the only financial report issued which reflects the activities of all entities subject to consolidation as a whole.There are multiple ways to consolidate financial statements. The method used depends on the ownership and control between the entities. The options are a full consolidation, proportionate consolidation and equity consolidation.This method can be used when a parent company has full ownership and control (more than 50% ownership) into another entity. A full consolidation means the companies that are being consolidated merge 100% of their assets, liabilities, equity, income and expenses together.Proportionate consolidationThe word proportionate is key in this method. When using proportionate consolidation, only a portion of another entity is consolidated rather than merge 100% of it. That portion is determined using the ownership percentage into the other entity. For example, if entity A owns 30% of entity B, then 30% of entity B gets consolidated into entity A. This method can be used by joint ventures or any types of relationships where theres ownership from one entity into another (regardless of the ownership percentage).In situations where investors do not have control but possess significant influence, equity consolidation can be used. Sometimes, an entity can own less than 50% of shares in another entity but still has significant influence over the entity. This method requires the investing company to record the initial investment at cost (number of shares x cost of each share). Then, any profit or loss from the investee company will be recorded in the investing company to adjust for the value of the investment based on their ownership.Read More:Do Accountants Work Long Hours? (The Truth to the Hours)In order to prepare consolidated financial statements, there are recommended steps to remember. This ensures the process goes as smoothly as possible. Lets look at these steps below.Determine which entities need to be consolidated. To do so, look at a structure chart and identify where there is control, majority ownership or significant influence. Once the targeted entities are identified, you can determine the method of consolidation to use for each situation. Obtain financial records for each entity that need to be consolidated since those are key data required to proceed with a consolidation. Pay attention and ensure that the periods in the financial records from each entity are the same since a consolidation needs to aggregate data for the same period. If an entity cannot provide financial reports for the period requested, adjustments will need to be made to match the financial periods. Ensure the accounting policies between entities are the same. If not, adjustments are needed before consolidation. Create a master mapping of accounts so that the accounts from different entities are all mapped in a similar way. This will make it easy for the consolidation since it will group all the same types of accounts together. Check whether any entities report on a different currency. If thats the case, entities that are in foreign currencies will need to be translated to the reporting currency first. Balance sheet data use the period end conversion rate and income statement data use the average exchange rate during the financial period. In the consolidation process, while adding accounts and activities together, go through any accounts that give hints to intercompany transactions since these need to be eliminated to avoid double accounting. The shareholders equity section for the subsidiaries are eliminated during the consolidation since the parent owns the subsidiaries. By merging subsidiaries and the parent company together, if the shareholders equity section is not eliminated in the subsidiaries, that would equal to double accounting. Adjust for any non-controlling interest in any subsidiaries. Non-controlling interest means an investor that owns less than 50% of shares and has no decision rights into the company. This scenario often happens when the parent company doesnt own 100% of subsidiaries so in the consolidation, the non-controlling interest needs to be reflected in the groups equity section.Enough theory, lets look at an example of full consolidation. We will be working on consolidating Big Inc. (Big) and Little Inc. (Little) as at 31 December. Big owns 100% of Little. The below represents the balance sheet and income statement of each entity.Balance sheet at 31 DecemberBig Inc.Little Inc.AssetsCash and cash equivalents52,00066,000Accounts receivable15,00032,000Due from Little Inc.21,000Inventories12,00073,000Property, plant and equipments34,00065,000Investment in Little Inc. 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Now what happens if Big owns 90% of Little and theres a 10% non-controlling interest belonging to another entity? We will explore this situation below.Balance sheet at 31 DecemberBig Inc.Little Inc.AssetsCash and cash equivalents52,00066,000Accounts receivable15,00032,000Due from Little Inc.21,000Inventories12,00073,000Property, plant and equipments34,00065,000Investment in Little Inc. 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We will also need to account for the non-controlling interest of 10%.Balance sheet at 31 DecemberBig Inc.Little Inc.Sum of Big and LittleEliminate intercompany transactionsEliminate equity transactionsConsolidated balance sheet for Big GroupAssetsCash and cash equivalents52,00066,000118,000118,000Accounts receivable15,00032,00047,00047,000Due from Little Inc.21,00021,000(21,000)Inventories12,00073,00085,00085,000Property, plant and equipments34,00065,00099,00099,000Investment in Little Inc. 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In the balance sheet, we need to remove the retained earnings attributable to the non-controlling interest of 10% ($89,000 x 10% = $8,900). That portion of 8,900 in retained earnings is going to the non-controlling interest in addition to the cost of the investment (10% x $100,000 = $10,000). Therefore, the non-controlling interest has a total of $18,900 in Big Group. On the income statement side, we determine the net profit attributable to the non-controlling interest by multiplying their ownership in Little with the net profit of Little (10% x $23,000 = $2,300). The net profit attributable to Big Group can be calculated as a balancing figure ($25,000 $2,300 = $22,700). To prove that this number is accurate, we can also do it the long way by multiplying the ownership of Big in Little with the net profit of Little, then add the net profit of Big and remembering to remove any intercompany transactions between the two entities ((90% x $23,000) + $16,000) $14,000 + $36,000 $36,000 = $22,700).We used a very simplified example to illustrate full consolidations. In reality, things could get a little more complicated but if you go step by step with consolidation concepts, you will always end up with a completed consolidation.Lets go through an example of a proportionate consolidation and equity consolidation. For the purpose of this example, we will assume Big owns 30% of Little. We will use a very simplified version of the balance sheet and income statement for our example.Balance sheet at 31 DecemberPre-consolidationProportionate consolidationEquity consolidationBig Inc.Little Inc.Calculate Bigs portion in Little (30%)Add Big and 30% LittleAccount for the investmentAssetsCash and cash equivalents52,00066,00019,80071,80052,000Accounts receivable15,00032,0009,60024,60015,000Investment in Little21,900**Total assets67,00098,00096,40088,900LiabilitiesAccounts payable2,00010,0003,0005,0002,000Long-term debt10,00015,0004,50014,50010,000Total liabilities12,00025,00019,50012,000Shareholders equityEquity shares50,00060,00021,900*71,90071,900Retained earnings5,00013,0005,0005,000Total shareholders equity55,00073,00076,90076,900Total liabilities and shareholders equity67,00098,00096,40088,900*The amount of $21,900 is obtained by multiplying the 30% ownership in Little with the total shareholders equity of $73,000 in Little (30% x $73,000 = $21,900). This is because 30% of the total shareholders equity belongs to Big and is accounted for in the equity shares. We do not adjust the retained earnings, leaving them as it is originally in Big.**In the equity consolidation, you can see that we are not aggregating the accounts from Big and Little together. Contrary to full consolidation or proportionate consolidation, we simply account for an investment, recorded in assets, equal to the percentage ownership in Littles shareholders equity (30% x $73,000 = $21,900).Now lets look at the effect on the income statement.Income statement for the year ended 31 DecemberPre-consolidationProportionate consolidationEquity consolidationBig Inc.Little Inc.Calculate Bigs portion in Little (30%)Add Big and 30% LittleAccount for the equity incomeRevenue80,000150,00045,000125,00080,000Cost of sales(6,000)(54,000)(16,200)(22,200)(6,000)Gross profit74,00096,000102,80074,000Salaries(17,000)(40,000)(12,000)(29,000)(17,000)Administrative expenses(5,000)(10,000)(3,000)(8,000)(5,000)Equity income13,800***Net profit52,00046,00065,80065,800***The equity income derives from the ownership in Little (30%) multiplied by the net profit of Little (30% x $46,000 = $13,800).Preparing consolidated financial statements can be easy just as it can be tricky. Consolidating small entities that have few transactions and standard structures can be a piece of cake. On the other hand, multinationals with enormous company structures can be a headache. The important thing is to remember the basics behind consolidation. Identifying relationships between entities, choosing a consolidation method and making sure any redundant transactions that would be considered double accounting is removed. It requires a lot of practice and being familiar with the structure chart. Last update: 01/2025The video lecture (the written explanations are below the video)After summaries of standards related to consolidation and group accounts, Id like to show you how to prepare consolidated financial statements step by step.Ill do it on a case study, with explaining what I do and why. If you dont like reading, you can skip to the end of this article and watch my video.If youd like to revise a theory first, then please read my summary of IFRS 3 Business Combinations and IFRS 10 Consolidated Financial Statements, both of them contain video in the end.Whats the situation?Heres the question:Mommy Corp purchased 80% shares of Baby Ltd. a few years ago.Below there are statements of financial positions of both Mommy and Baby at 31 December 20X4.Prepare consolidated statement of financial position of Mommy Group as at 31 December 20X4. Measure NCI at its proportionate share of Babys net assets. All retained earnings of Baby are post-acquisition.Please note here that in the above statements of financial position, all assets are with + and all liabilities are with -. I use it this way because for me its easier to verify and identify mistakes, but its up to you. 3 Steps in Consolidation ProceduresI have described the consolidation procedures and their 3-step process in my previous article with the summary of IFRS 10 Consolidated financial statements, but let me repeat it here and follow these steps:Combine like items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries;Offset (eliminate):the carrying amount of the parents investment in each subsidiary; andthe parents portion of equity of each subsidiary;Eliminate in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group. Step 1: CombineAfter you make sure that all subsidiarys assets and liabilities are stated at fair values and all the other conditions are met, you can combine, or add up like items.Its very easy when a parent (Mommy) and a subsidiary (Baby) use the same format of the statement of financial position you just add Mommys PPE and Babys PPE, Mommys cash and Babys cash balance, etc. Special For You! Have you already checked out the IFRS Kit? Its a full IFRS learning package with more than 40 hours of private video tutorials, more than 140 IFRS case studies solved in Excel, more than 180 pages of handouts and many bonuses included. If you take action today and subscribe to the IFRS Kit, youll get it at discount! Click here to check it out! In reality, companies use their own format for presenting their financial position and therefore it can be difficult to combine. Thats exactly WHY so many groups use their consolidation packages and subsidiaries accountants must fill them up along with preparing own financial statements.Therefore, when a group controller calls you every five minutes to remind you the consolidation package, youll know why!In our case study, combined numbers looks as follows:Of course, there are some strange and redundant numbers, for example both Mommys and Babys share capital, but we havent finished yet!Step 2: EliminateAfter combining like items, we need to offset (eliminate):the carrying amount of the parents investment in each subsidiary; andthe parents portion of equity of each subsidiary;and of course, recognize any non-controlling interest and goodwill.So lets proceed. The first two items are easy just remove Mommys investment into Baby (CU 70 000), and remove Babys share capital in full (CU + 80 000).As there is some non-controlling interest of 20% (please see below), you need to remove its share in Babys post-acquisition retained earnings of CU 9 000 (20%*CU 45 000).Wait a second how do we know that all Babys reserves (retained earnings) of CU 45 000 are post-acquisition?Well, the question says that the full Babys retained earnings are post-acquisition, otherwise you need to trace it.Be careful here, because you absolutely need to differentiate pre-acquisition retained earnings from post-acquisition retained earnings, but here, were not going to complicate the things.Then we need to recognize any non-controlling interest and goodwill.Non-controlling interest at 31 December 20X4Mommy has owned 80% of Babys share and therefore, non-controlling interest owns remaining 20% of Babys net assets.The question asks to measure non-controlling interest at proportionate share on Babys net assets, so heres how it looks like at the end of the reporting period:Babys net assets are CU 125 000 as at 31 December 20X4, including Babys share capital of CU 80 000 and Babys post-acquisition reserves of CU 45 000.Non-controlling interest at 31 December 20X4 is 20% of Babys net assets of CU 125 000, which is CU 25 000. Recognize it with minus, as we are crediting equity with non-controlling interest.Initial recognition of goodwillThere might be some goodwill arisen on initial recognition. If youd like to learn more about goodwill, please refer to the article about IFRS 3 Business Combinations.Lets calculate it. Please dont forget that we calculate goodwill based on numbers on acquisition, not on 31 December 20X4.The goodwill is calculated as:Fair value of consideration transferred: in this case, we simply take Mommys investment in Baby of CU 70 000;Add any non-controlling interest at acquisition: here, were not adding the non-controlling interest calculated above, as its the measurement on 31 December 20X4. At acquisition, the value of non-controlling interest is 20% of Babys net assets on its incorporation of CU 80 000 (share capital only). It equals CU 16 000.When a business combination was achieved in stages, you would need to add the acquisition-date fair value of the acquirers previously-held equity interest in the acquiree, but in this example, its not applicable,Deduct Babys net assets at acquisition: CU 80 000.Goodwill acquired in a business combination comes to CU 6 000 (70 000 + 16 000 80 000).The elimination entry looks as follows (sign + indicates a debit entry; sign - indicates a credit entry):DescriptionAmountDebit CreditRemove Mommys investment in Baby-70 000FP Investment in BabyRemove Babys share capital in full+80 000FP Babys share capitalRemove 20% (NCI) of Babys post-acquisition retained earnings+9 000FP Retained earningsRecognize non-controlling interest on 31 December 20X4-25 000FP Non-controlling interestRecognize goodwill acquired in a business combination+6 000FP Intangible assets (goodwill)Check0I have transferred this journal entry into our consolidation worksheet and it looks as follows: Eliminate Intragroup TransactionsParents and subsidiaries trade with each other very often.However, when you look at both parent and subsidiary as at 1 company, which is the purpose of consolidation, then you find out that theres no transaction at all.In other words, group has not performed any transaction from the view of some external user.Therefore you need to eliminate all transactions happening within the group, between a parent and its subsidiaries.Looking to above individual statements of financial position of Mommy and Baby you see that Mommy has a receivable to Baby of CU 8 000 and Baby has a payable to Mommy of CU 8 000. Perhaps these 2 items relate to the same transaction between them and we need to eliminate them, by debiting payables and crediting receivables:Final stepsAfter we have completed all steps or consolidation procedures, we can add up all the combined numbers with our adjustments and thus we arrive at consolidated statement of financial position.You can revise all the steps and formulas in Excel file that you can download at the end of this article.Heres how it looks like:Please note the following facts:Consolidated numbers are simply sum of Mommys balance, Babys balance and all adjustments or entries (Steps 1-3).Mommys investment in Babys shares is 0 as we eliminated it in the step 2. The same applies for Babys share capital and consolidated statement of financial position shows only ashare capital of Mommy (parent).Theres a goodwill of CU 6 000 and non-controlling interest of CU 25 000, as we have calculated above.Consolidated retained earnings are CU 98 000 and they consist of:Mommys retained earnings of CU 62 000 in full, andMommys share (80%) on Babys post-acquisition retained earnings of CU 45 000, that is CU 36 000 Exam-style consolidationI know that many of you prepare for your exams and this is NOT the way how you learned consolidation during exam preparation courses.OK, I understand.I prefer this way of making consolidation by far, because here, you go systematically, step by step. You can deal with each adjustment in a separate column and as a result, your numbers will always balance. You will never forget anything.The exam-style of making consolidated financial statements is good and easy when there are just a few issues or complications. Special For You! Have you already checked out the IFRS Kit? Its a full IFRS learning package with more than 40 hours of private video tutorials, more than 140 IFRS case studies solved in Excel, more than 180 pages of handouts and many bonuses included. If you take action today and subscribe to the IFRS Kit, youll get it at discount! Click here to check it out! But when you need to deal with more complex situations, then you can forget or omit the things very easily. Trust me, I did it too.However, to make you happy, you can find the same case study solved by the exam-style in the attached excel file that you can download in the end of this article.Is consolidation really easy?Sometimes.But in most cases, there is lots of issues or circumstances that you need to take into account and exactly their significance and amount makes it all difficult.What issues? For example:Consideration transferred for acquiring the shares may involve not only cash, but also some other forms, such as share issue, contingent consideration, transfers of assets, etc.Non-controlling interest can be measured at fair value instead of at proportionate share.There might be some unrealized profit on transactions within the group and it needs to be eliminated.There might be some transfer of property, plant and equipment at profit within the group and as a result, you need to adjust both unrealized profit and depreciation charge, too.Goodwill might be either positive or negative (=gain on a bargain purchase). Moreover, it can be impaired.Subsidiarys net assets might be stated in the amounts different from their fair value, or even not recognized at all.Subsidiary may show both pre-acquisition retained earnings and post-acquisition retained earnings. You need to be extremely careful in differentiating them and dealing with them separately.I can go on and on, but I dont want to discourage you. However, if you need to know more about all these issues, I have covered them fully in my premium learning package the IFRS Kit, so please check out if interested.Further reading: Heres the list of all articles and videos published on CPDbox on consolidation totally free.If you like this example and explanations, please help me spread a word about it and share it with your friends. Thank you! If youre running a parent company with multiple subsidiaries, you need to be able to understand (and explain) the financial statements from all of those subsidiaries and ventures. The next step? Consolidate them. Its not always easy, but were going to show you how to handle it step by step, wrapping it all up with a final consolidated financial statement for the parent company.What exactly does the term "consolidated financial statement" mean for you and your parent company?You can think of consolidated financial statements as a financial assessment for your entire business. Youre taking all of those separate financial statements from your subsidiaries, joint ventures, and other entities, and bringing them together. Its the final word in how your business is performing as a whole.With a consolidated financial statement, you can see the big picturehow all those parts come together to tell the story of your entire organization. This allows investors, regulators, and possibly even auditors to see exactly how all of the parts of your business are performing.But it's not as simple as just adding up the numbers. Consolidating financial statements involves some serious accounting work to eliminate any double-counting and ensure everything is reported accurately.When you need to consolidate financial statementsNow that we've got a handle on what consolidated financial statements are, the next question is: What entities count as ones that need to be consolidated?That depends on a few different factors:Ownership controlHow much control does your parent company have over your subsidiaries and other entities? If a parent company has more than 50% of another entitys voting shares, or if it has significant influence over the entitys operations, thats the tipping point. Consider that an indicator that you must consolidate their financial statements with those of your parent company.This means that by definition, your subsidiaries fall under this category. Subsidiaries are companies that belong to a parent company.Its also possible to be significantly involved with another entity without actually owning more than 50% of its voting shares. This is called a variable interest entity (VIE), and in these cases, controlling interest is based not on shares, but on the power to direct activities that directly impact financial performance. It can also be related to the obligation to absorb losses, or the right to receive benefits from the entity.If your parent company has a controlling financial interest in another company, be sure to consolidate the VIEs financial statements with those of your parent company.Consolidated reporting requirementsStill not sure if you should consolidate? The Generally Accepted Accounting Principles (GAAP) govern when and how companies should consolidate their financial statementsso they are the right place to check whenever youre unsure about what the right move would be.Investor expectationsThere are some situations where you may not be legally required to create a consolidated financial statementbut you might want to do so anyway. Investors and stakeholders may want to see a consolidated financial statement for complete transparency and full understanding of your overall financial health and trajectory. Providing these statements can help increase investor trust and confidence.In addition, your employees may benefit from seeing a consolidated financial statement in order to give them greater insight into the direction of the company and its overall goals. A more informed and engaged workforce is always a good thing!So thats it: take a good hard look at your companys ownership structure, then consult the relevant accounting standards to determine when consolidation is necessary. Youre already on the right track to a final consolidated financial statement report.7 steps to consolidate your financial statementsNow that you have a better handle on when financial consolidation is necessary, let's get into the process of actually creating consolidated financial statements. Its a little technical, but we'll break it down into manageable steps to get your consolidated financial statement report ready to go.1. Identify subsidiaries and investmentsBegin by identifying all subsidiaries, joint ventures, and other entities in which your company has a controlling interest or significant influence. Then determine the extent of your company's ownership or control over each entity.Our section above will help you out a bit with this process. Remember: when in doubt, consult the relevant accounting standards such as GAAP.2. Gather financial statementsTime to get it all together. Collect the financial statements of the parent company and its subsidiaries, ensuring they are prepared using consistent accounting policies and consolidated reporting periods. This includes balance sheets, income statements, statements of cash flows, and statements of changes in equity.3. Eliminate intra-entity transactionsYour statements might not always be neat and tidy right off the batyou have to eliminate intra-entity transactions first. An intra-entity transaction is when your entities exchange goods, services, or assets between each other. While this is a common practice, you still need to account for it.Review the financial statements for any intra-entity transactions, including intercompany sales, loans, or transfers. Eliminate these transactions to avoid double-counting and ensure accuracy in the consolidated financials.4. Adjust for non-controlling interestsA consolidated financial statement shows the whole picture, so if you dont fully own a company, you need to account for that. If you dont own 100% of an entity, you should adjust the entitys equity and income to reflect the portion that is attributable to non-controlling interests (NCI). So youll need to adjust equity balances and deduct the NCIs share of net income from the total, consolidated net income.This makes sure that you arent taking credit for something that isnt actually under the control of the parent company. Youll also need to disclose the non-controlling interests' share of equity and net income separately in the consolidated financial statements.5. Consolidate those financial statementsCombine the financial statements of the parent company and its subsidiaries into a single financial statement. This involves aggregating assets, liabilities, equity, revenues, expenses, and cash flows of all entities being consolidated.Prepare the consolidated balance sheet, income statement, statement of changes in equity, and statement of cash flows. These statements provide a comprehensive view of the financial position, performance, and cash flows of the entire group of entities.6. Review and auditMeasure twice, cut oncebasically, make sure you have it right. Review the consolidated financials for accuracy, completeness, and compliance with accounting standards. You can also consider engaging external auditors to perform an audit or review of the consolidated financial statements for additional assurance.Once youre satisfied with the results, present the statements to stakeholders, including investors, lenders, and regulatory authorities as needed.7. Monitor and updateYoure done for nowbut theres always next year. Companies and subsidiaries often change throughout the year, so stay on top of any relevant changes and how they might impact your consolidated statement. Continuously monitor changes in the group's structure, ownership, and operations that may impact the consolidation process. Then you can update the consolidated financial statements as necessary to reflect any changes or new developments.Rules and guidance often change, so remember to consult relevant accounting standards and seek professional guidance as needed to ensure accuracy and compliance as you complete this process.Examples of consolidated financial statementsMost major companies have subsidiaries, and so they have to create consolidated statements. Here are just two examples so you can see how it works for them.You might know that PepsiCo is more than just a soda companythey have numerous subsidiaries, including Frito-Lay and Quaker Oats. As a publicly traded company, their consolidated financial statements are available for all to see in their annual reports. These statements are helpful for shareholders to understand PepsiCo's overall financial health, strategic direction, and potential risks.Alphabet Inc, Googles parent company, is a global company with many subsidiaries and divisions, each with their own financial statements. While Alphabet prepares a consolidated financial statement to provide a comprehensive view of its performance, it may also disclose certain financial information separately for its various operating segments, which provides insight into the financial performance of each segment.Ready to leverage automation to streamline financial consolidation?As companies grow and expand their operations, the complexity of financial consolidation increases substantially. Fortunately, advancements in technology offer innovative solutions to streamline the consolidation process.Here's how leveraging automation in financial operations can make a difference:Efficient data integration: Automation-enabled software solutions seamlessly integrate data from various sources. This eliminates the need for manual data entry and reconciliation. The bottom line? Fewer errors and more time saved.Real-time visibility: With automation, financial data is updated in real-time, providing stakeholders with instant access to accurate and up-to-date information. This enables better decision-making and strategic planning.Standardized processes: Automation ensures consistency and standardization in financial processes across the organization. By establishing predefined workflows and approval hierarchies, automation software streamlines all financial operations processes, including consolidation, while minimizing discrepancies.If you have multiple business entities, such as subsidiaries and parent companies, BILL Accounts Payable can be a big help in simplifying a consolidated financial statement and giving a better picture of your companys financial health. BILL offers multi-entity accounting with automation tools that can streamline how you manage and report financial data. This means you can easily see both how individual subsidiaries are performing and the organization as a whole.Learn more about BILL Accounts Payable.Consolidated financial statement FAQWhat are the techniques for the consolidation of financial statements?You can choose from three main methods:Full consolidation: This combines financial statements of all subsidiaries under the parent company, providing a comprehensive view of the group's finances.Proportionate consolidation: Joint ventures will likely use this method, where each venturer proportionately consolidates their share of jointly controlled entity's assets and liabilities.Equity consolidation: Are you a parent company without full control over the subsidiary? This method is used for significant influence cases, recognizing the investor's share of the earnings or losses.These techniques help ensure a transparent and reliable consolidated financial statement, adhering to accounting standards such as GAAP.Who is responsible for preparing consolidated financial statements?The responsibility for preparing consolidated financials typically belongs to the parent company's finance and accounting team. Within that parent company, heres a breakdown of how it often works:The CFO oversees the entire reporting process of the parent company, including the consolidation of financial statements. They provide strategic guidance and ensure compliance with accounting standards and regulatory requirements.The controller or finance director is responsible for coordinating the consolidation process.External auditors may be engaged to review the consolidated financials for accuracy, completeness, and compliance with accounting standards and regulatory requirements. They provide independent assurance to stakeholders regarding the reliability of the consolidated financial information for subsidiaries and the parent company.Who is exempt from preparing consolidated financial statements?Not all entities are required to prepare consolidated financial statements. Here are some cases where exemptions may apply:Small and medium-sized enterprises (SMEs)Many jurisdictions exempt SMEs from creating consolidated financial statements if they meet certain criteria, such as having a low level of activity, limited size, or few subsidiaries. Instead, its possible that SMEs may prepare separate financial statements for each entity, including the parent company. Check with an accounting professional to see if this exemption applies to you.Investment entitiesInvestment entities that meet specific criteria may be exempt from consolidating their subsidiaries' financial statements. These entities primarily hold investments for capital appreciation, dividends, or both, rather than for operating activities.Subsidiaries under temporary controlIf a subsidiary is under temporary control or held for resale, it may be exempt from consolidation. This exemption applies when the subsidiary is acquired with the intent to sell within a short period or is held for disposal as part of a business strategy.Other legal exemptionsSome jurisdictions may provide legal exemptions from consolidating financial statements for specific types of entities, such as not-for-profit organizations, public sector entities, or entities with specific ownership structures. Your accounting professional can help you determine whether you fall into one of these categories.While exemptions from creating consolidated financial statements may reduce certain reporting burdens, dont think youre getting away without any extra work. These cases can also come with various disclosure requirements and responsibilities to ensure transparency and accountability in financial reporting.Not sure which rules and exemptions apply to you, or where to get started? Consult with accounting professionals and regulatory authorities to get clarity.Some large businesses organise themselves as a single company. More frequently, a larger business will be organised as a group of companies. Most groups are owned and controlled by a common holding company called the parent. The parent, in turn, controls one or more subsidiary companies (subsidiaries).The majority of treasurers work in group organisations. Most of our external contacts will also be parts of groups. So we need to be able to fully understand group accounts.THE TREASURER'S ROLEOur role includes:Interpreting financial information about other businesses.Understanding and preparing information about our own business.We also need to appreciate the important legal distinction between the various different companies in a group, and the group as a whole.THE ACCOUNTS ARE MULTIPLYINGGroups prepare:Individual accounts for the parent company and for each subsidiary.Consolidated accounts for the group.Why so many?Different sets of accounts are used for different purposes. The individual accounts show the position and the performance of each individual company, but not the group as a whole.The consolidated accounts combine all the information from the subsidiaries under the parents control. Group accounts report the underlying commercial reality of the effective control of the parent. This makes groups readily comparable, even if their legal and ownership structures are quite different. Importantly though, the accounting group is not a legal entity in its own right.Three very important concepts in group accounting are goodwill, internal transactions and non-controlling interest.GOODWILL Goodwill - any excess of: 1. The amount paid to acquire a business, over: 2. The value of the net assets acquired.This is any excess of the amount paid for an acquisition over the value of the net assets acquired. It reflects the value of the whole acquired business being greater than the sum of its parts.For example, if net assets with a value of 100m were acquired for a purchase price of 120m, then goodwill would be: 120m - 100m = 20mGoodwill is shown separately in the group statement of financial position.Lets look at an exampleHoldco is a parent company and Sub is its subsidiary. Holdco bought Sub some years ago for 1m, which was also the value of Subs net assets at that time. There was no difference between the amount paid and the value of the net assets acquired. This means the goodwill in the Holdco Groups accounts is Nil.STATEMENT OF FINANCIAL POSITION: SUMMARYmHoldcoSubAdjustmentsGroupAssetsInvestment in Sub1-(1)-Other assets42002045200204Equity280(1)81Liabilities31201235200204Holdco and Subs individual assets and liabilities today are set out above, together with the consolidated group figures. The consolidated group statement shows that the Holdco group controls a much larger amount of assets (204m) than the individual accounts of Holdco might suggest (only 4m). The group is also more heavily indebted than Holdcos individual accounts disclose. Its total liabilities are 123m, not just the 3m disclosed in Holdcos individual accounts.INTERNAL TRANSACTIONSInternal transactions arent normally relevant information for the external users of group accounts. Internal items are ones between members of the same group, for example, any sales and purchases between Holdco and Sub.For this reason, a fundamental principle of consolidation is to remove internal items from the group figures. This avoids group accounts showing misleadingly high levels of activity or assets.REMOVE IRRELEVANT INFORMATIONLets build up the statement of profit or loss for the Holdco Group. Holdcos total sales were 90m, and Subs total sales were 50m. The first stage of consolidating these results is simply to add them up. This is done in the first two columns of the table below.But 40m of Subs total sales were internal group sales to Holdco.We need to exclude the internal sales and purchases from the group figures. This is also done in the adjustments column below.The groups total sales to external customers are only 100m, rather than the total of the individual sales of each group company (90m + 50m = 140m).Our consolidation adjustments to remove internal transfers (of 40m) ensure consolidated group sales are not overstated.STATEMENT OF PROFIT OR LOSS: EXTRACTSmHoldcoSubAdjustmentsGroupExternal sales9010100Internal sales-40(40)-Total sales9050(40)100Internal purchases(40)-40-External costs(38)(32)(70)Profit before tax121830NON-CONTROLLING INTERESTSometimes the group owns less than 100% of a subsidiary, say 90%. Non-controlling interests are the ownership rights in the net assets and profits belonging to the minority shareholders, 10% in this case.For example, if the net assets of the subsidiary are 80m and the minority interest is 10%, the value of the minority interest in those net assets is: 80m x 0.10 = 8mSUMMARY: PURPOSE AND PROCESSPurposeConsolidated financial statements provide important information by summarising:The total assets and liabilities under the control of the parent.The results arising from this control.In the individual statement of financial position of the parent itself, all that is shown is the parents investment in the subsidiaries, usually at original cost. There is no indication of the actual assets and liabilities of the subsidiaries that the parent controls.ProcessConsolidation adds together the assets, liabilities and results of the parent and all of its subsidiaries. The investment in each subsidiary is replaced by the actual assets and liabilities of that subsidiary.Consolidation adjustments are then made for any:GoodwillInternal transactions and balancesNon-controlling interests ___________________Author:Doug WilliamsonSource:The Treasurer magazineWant to learn more about treasury and cash management?Choose from: eLearning courses: 45-90 minutes to complete, available online 24/7. Training courses: live skills-based training sessions. Treasury and Cash Management qualifications: internationally recognised courses from entry to master level.All our courses will provide you with valuable knowledge as well as easy-to-share digital credentials to demonstrate your learning achievements. Consolidation accounting is a method of accounting used when a parent company owns subsidiaries (from 20% to upward of 50%). More than just joining together, consolidation in accounting is a list of precise processes fundamentally rooted in accountings best practices. Consolidation accounting results in consolidated financial statements, which is how an organization and its decision-makers know how the company is performing. Not to be confused with consolidated financial statements (which are part of consolidation accounting), consolidation accounting joins the finances of subsidiary branches with the finances of the overarching company. So, if you, as a parent company, oversee two subsidiaries, it would be inaccurate and against the law to only report only on the parent companys revenues. Enter consolidation accounting and its processes. Simply put, the CFO and FP&A departments will join the parent companys numbers with the subsidiaries numbers to present accurate and complete pictures of an orgs financials. The processes of consolidation accounting demand that all entities follow a strict set of accounting rules. Some of the most important and most common regulations to remember are: Both GAAP and IFRS have distinct guidelines for entities reporting consolidated financial statements with subsidiaries. Declare minority interests. In other words, disclose the stock shares not owned by the parent company. The financial reporting statements must be prepared in the same way for the parent company as they are for the subsidiary company. Completely eliminate intragroup transactions and balances. While the above is not a complete list of all the consolidation rules in accounting, this comprehensive list is a good place to get started. Based on the percentage of the parental companys control, parent companies and their subsidiaries fall into one of the following three categories. It is essential to understand which category your company is in so that your finance departments report to the appropriate consolidation standards meant for your organization and its branches. For this method of consolidation accounting, the parent company owns more than 50% of the subsidiary. Therefore, the reporting and accounting of the subsidiary are under the complete control of the parent company. In this method, the parent companys balance sheet reports the subsidiarys assets, liabilities, and equity. Furthermore, all the subsidiary revenues and expenses are assigned to the parents income statement. The subsidiary and parent income statement is reported as one. Accordingly, there is a 100% combination of all the revenue generated by the child/subsidiary to the parent. If a parent company has $2 million in asset totals and the subsidiary has $500,000, the combined assets are $2.5 million ($2 million + $500,000). (On the consolidated balance sheet, under the shareholders equity section, the parent company will list its capital stock and investment made into the subsidiary.) In this consolidation accounting method, the percentage contributed by the parent company to the subsidiary is the percentage used to generate the financial reporting statements. Basically, this method distributes an entitys assets, liabilities, equities, income, and expenses as per its contribution to the venture. Therefore, any parent-subsidiary entity (no matter the investment percentage) can choose this method of reporting. Those opting for the proportional consolidation method do so because it provides more detailed and accurate reports. This method allows each entity to understand the operational efficacy of the joint venture, including things like production costs and profit margins. Company 1 owns 50% of the controlling interest of Company 2. Therefore, Company 1 records the investment at 50% of the assets, liabilities, revenues, and expenses of Company 2. So, if Company 1 has revenues of $200 million and Company 2 has revenues of $80 million, Company 1 would have $240 million. In this consolidation accounting method, the investor lacks full control over the subsidiary but still wields significant influence. Parent companies/investors owning less than 20% to over 50% of a companys shares may use the equity consolidation method for reporting. This method is often used when one entity in a joint venture clearly wields more influence over the venture (than the other entity). This method assesses the profits earned by investments in other companies. If a company holds more than 20% of another companys stock, the company has significant control where it can exert influence over the other company. The initial investment is recorded at cost, and each quarter adjustments are made depending on the value at the end of the period. Company 3 buys 20,000 shares of Company 4 at $20 per share. Company 3 records the initial investment cost as $400,000. Then, any profit/income from the investment in the future will reflect the changes in the value of the investment. For parent companies of all sizes, consolidation accounting is a significant part of what your FP&A and CFO functions do. To support your CFO and accounting functionaries (and really, for all of your FP&A needs) as your company grows, Datarails is the solution to all of your consolidation needs. When you consolidate your information with Datarails, its unique mapping takes all of your disparate sources of information and consolidates it into one places. This includes FX conversions, and inter-company transactions. Datarails budgeting software integrates easily with current systems and consolidates them to deliver actionable insights. With its seamless integration, Datarails also offers in-depth analysis and real-time results. So, as your company grows and takes on more entities, its time to stop the manual processes and endless Excel templates. Instead, we have software that optimizes your existing infrastructure and makes all of your financial reporting processes work for you. To learn more about how Datarails can help you automate and streamline your consolidation accounting and financial reporting, try a free demo today! Or, maybe, you are interested in reading more about how consolidation accounting works IRL? Check out our success stories and the use cases of Euclid Systems.

Consolidatie boekhouden. Easy way to learn accounting concepts. Consolidation accounting rules. Accounting consolidation. Consolidation process. Consolidation of financial information.