

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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CONSOLIDATION

- Consolidation = aggregation of an economic group
- Consolidation = aggregation information from separate financial statements to one group consolidated statement;

- Consolidated accounts are prepared by a parent company.
- Consolidated statements are represented by:
Consolidated Balance Sheet, Consolidated Statement of Comprehensive income,
Consolidated Cash-flow Statement, Consolidated Statement of Changes in Equity and Consolidated Notes
- No formats are given

- **Parent Company** – an entity has one or more subsidiaries,
 - Major influence = control – the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities;
 - Substantial influence – it reaches significant level in subsidiary that is not major influence
 - A group = a parent and its subsidiaries...

Differences in consolidated statements and individual statements

Consolidated statements are NOT for:

- a) Profit or loss distribution,
- b) Relationship to individual customers and suppliers,
- c) Tax purposes;

Consolidation according to IAS/IFRS

- IAS 27 – Consolidated and Separate Financial Statements
- IAS 28 – Investments in associates
- IAS 31 – Investments in joint ventures

Definition and method of consolidation.

EU – 7. Accounting Directive

Consolidation according to IAS/IFRS

Amended standards from 2013:

- IAS 28 → IFRS 12 – 'Disclosure of Interests in Other Entities '
- IAS 31 → IFRS 11 – 'Joint Arrangements'
- IAS 27 → IFRS 10 – 'Consolidated Financial Statements' →

IAS 27 only for individual financial statement.

- It is important to distinguish: **level of influence** and **participation rate!**
- They can be the same, but this is not always true.
- Lets explain these terms 😊

Level of influence

- It means the level of influence of parent company in subsidiary!
- It represents the level of right of parent company to decide in subsidiary, that means gain information, impose tasks and goals, control their fulfillment, ...

Level of influence

- **Major influence** – parent company has more than 50% of votes. It influences financial and operating activity of subsidiary in benefit for parent company.
- **Substantial influence** – Parent company has (directly or indirectly) 20% -50% votes. It can influence financial and operating activity of subsidiary in benefit for parent company.

- **Minor influence** – parent company has less than 20% votes (so called pasive investment), it can not influence financial and operating activity of subsidiary in benefit for parent company.
- **Joint-control** – two or more entities set up a company and realize its management. No one of them can control the company.

How to gain level of influence?

- a) Buying of votes

- b) Conclusion of contract with other investors – they will vote according them.

Participation rate

- It is given by ratio on ordinary shares of subsidiary
 - Major influence – more than 50% ordinary shares
 - Substantial influence – 20-50 % ordinary share
 - Minority interest – less than 20% ordinary share

Date of consolidation

- There is no problem in case of the same balance sheet date.
- If not, there are two methods for solution:
 - a) subsidiaries prepare interim financial statement
 - b) subsidiaries prepare final statement corrected by transactions after balance sheet date to consolidation

Consolidated rules

- Important rules for true and fair view is to have the same consolidated rules:
 - accounting
 - consolidation
- It is important that individual financial statements must be comparable
- Main problem is with entity in different countries

- It means to establish accounting rules:
 - Valuation of inventory,
 - How to value related costs to inventory
 - How to value consumption of inventory,
 - Creation and used of adjustments and allowances,
 - Recognition and valuation of deferred tax,
 - Depreciable method of long-term assets.....

Consolidation method

- ***Full Consolidation Method,***
- ***Proportional Consolidation Method,***
- ***Equity Method.***
- Consolidation method depends on level of influence:
 - Major influence = full consolidation method
 - Substantial influence = proportional consolidation method
 - Joint interest = equity method

Full consolidation method

- Financial statement of parent company are aggregated with subsidiary financial statement
- Accounting items are aggregated
- It is necessary to exclude transactions between group:
 - investments,
 - receivable and liabilities, ...

Equity method

- Financial Investment is recognised at purchase costs
- Parent company e.g. substantial influence, it has also partial responsibility for its performance and profitability, that's why the part on profit or loss is recognised in parent company accounts...

Consolidation requirements

- Carrying value of investment of parent company in subsidiary is excluded
- Minority interest for the period are recognised

Consolidation requirements

- Minority interest on net assets of subsidiary must be recognised separately.
- Convertible bonds and potential votes are not considered.
- Intergroup transactions, revenues and expenses and dividends must be excluded..

Consolidation requirements

- Profit,
- Part of other comprehensive income
- Total comprehensive income
- Minority interest

Disclosures

Disclosures:

- a note of parent companies and subsidiaries
- consolidation method
- indirect relationship in group
- entities excluded from consolidation

Consolidation IFRS for SMEs

Section 9 = Consolidation and Individual Financial statement

- New term = Combined Final Statement = Statement of two or more companies under control of one investor
- The same regulation for individual statements
- Section 9 is in conformity with IFRS full version

Section 9 – IFRS for SMEs

- Section 9 define when to prepare consolidated statements and consolidation procedures.
- There is a rule for consolidated and individual statements.

Consolidation – IFRS for SMEs

- The same method – aggregation of accounting items
- Elimination of carrying value of parent company investment in subsidiary
- Value and recognise minority interest
- Exclude intergroup transaction

THANK YOU FOR YOUR
ATTENTION