

PREPARING CONSOLIDATED FINANCIAL STATEMENTS : A LITERATURE STUDY

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ABSTRACT

The main objective of preparing Consolidated Financial Statements is to present the operating results of the financial position (including cash flow) of a holding company and its subsidiaries as if the group were one company with several branches. Preparing these financial reports can also reduce the need to prepare new financial reports. For example, a parent company has many subsidiaries, so many independent financial reports need to be reviewed. Therefore, consolidated financial statements make it easier for companies to read and evaluate their overall financial position. The type of research used in writing this article is literature study. References can come from books, journals, research report articles, and internet sites related to consolidated reports. Making consolidated financial reports has the same parts as ordinary financial reports, namely consisting of balance sheets, income statements and cash flow statements. The consolidated financial statements consist of several consolidated balance sheets, consolidated income statements, consolidated retained earnings statements, and consolidated cash flow statements. Preparation for making consolidated financial reports start by looking at the financial statements of the parent and subsidiary companies as a whole. Check records for errors or omissions and correct them. Adjust the report to exclude profit and loss statements between individual companies. Excludes subsidiary profits and dividends. Returns the balance of the subsidiary's investment account as the beginning balance of the period. Removal of residual balances from subsidiary statements, initially reflected in the parent company's financial statements. Removal of previously recognized capital from the subsidiary's finances. Perform settlement and depreciation of value differences. Remove other residues such as debts, income and expenses.

INTRODUCTION

The main objective of preparing Consolidated Financial Statements is to present the operating results of the financial position (including cash flow) of a holding company and its subsidiaries as if the group were one company with several branches. There is an opinion that Consolidated Financial Statements are more meaningful than stand-alone Financial Statements. Consolidated Financial Statements are usually required for fair presentation, if one company in the group directly or indirectly has control rights in another company.

The increasing number of business mergers by companies is intended to increase capital, business competition, have international networks, and expand and maintain their business. However, behind this positive side, business combinations give rise to various complexities, especially in terms of affiliate structures, which ultimately increase the complexity of problems for financial reporting.

Currently, almost all large companies prepare consolidated financial reports. Although people often think of the world's giant corporations as single companies, a closer look reveals that each company is actually composed of separate companies. To expand their business area, many

companies have opened branches in several areas. So in this case, the head company and its branch companies are separate legal and accounting entities, each having separate bookkeeping. When preparing a consolidated report, account balances are taken from the separate books of the head company and branch companies and then entered into the consolidation working papers. The consolidated report is prepared after all adjustments and eliminations, from the balances contained in the consolidation working papers.

In the business world, business mergers are a very effective way to expand a business. A business merger is the starting point for activities to prepare consolidated reports. Consolidated financial reports presented by all companies in Indonesia that have subsidiaries both domestically and abroad must be presented in accordance with generally accepted accounting standards.

In Indonesia, the preparation of Consolidated Financial Statements shows an increasingly widespread tendency, as can be seen from the increasing number of restructuring carried out by public companies which change the horizontal ownership structure (a group of companies owned by the same shareholder) into a vertical ownership structure (one or several companies are owned by another). This vertical restructuring actually reflects a response to business development and funding needs, in addition to supportive fiscal provisions and increasingly mature capital market conditions.

For companies that have branch companies in their respective regions, they continue to operate as a legal entity. Both companies normally continue to operate accounting systems that produce financial reports at the end of the accounting period. Therefore, the first issue is how to record the branch company in the books of the central company. The second accounting issue concerns combining the reports of the head company and separate branches in the reports of a joint venture entity. Reports like this are called consolidated reports (Baker ER et al., 2011).

Consolidated financial statements present the financial position and operating results for the central company (controlling entity) of one or more branch companies (controlled entities) as if the individual entities were one entity or company. Consolidation is required if a company owns a majority of the outstanding shares of another company. Consolidation can also be applied in several other situations and not all units that must be consolidated must be in the form of a company or business entity whose aim is to make a profit.

RESEARCH METHODS

Research methods are steps that are owned and carried out by researchers in order to collect information or data and carry out investigations on the data that has been obtained. The research method provides an overview of the research design which includes, among other things: procedures and steps that must be taken, research time, data sources, and with what steps the data is obtained and then processed and analyzed. According to experts, one of whom is Sugiono, explains that a research method is a scientific step to obtain data with a specific purpose & use.

The literature study method is a series of activities related to methods of collecting library data, reading and taking notes, and managing research materials (Zed, 2008:3). Carrying out this literature study is carried out by researchers after they have determined the research topic and determined the problem formulation, before they go into the field to collect the necessary data (Darmadi, 2011).

The type of research used in writing this article is literature study. References can come from books, journals, research report articles, and internet sites related to consolidated reports.

RESULTS AND DISCUSSION

Understanding Consolidated Financial Statements

A company certainly has various subsidiaries, either one subsidiary or several subsidiaries. Moreover, various companies and even their own subsidiaries will present consolidated financial reports. This type of financial report itself is often used to compile financial reports from a number of similar parent companies which become one entity in the financial statements.

Consolidated financial statements are documents that detail the financial activities of a business with subsidiaries or holding companies. A holding company is a business that oversees the activities of another business and often has a stake in the ownership of that business.

Financial reports that clearly reveal the financial position and business results of the parent company and subsidiaries as one unit (consolidated financial statement). A consolidated financial report is a report that presents the financial position of operational results for the parent company and several subsidiaries, as if these institutions were one company. In consolidated financial statements, the financial statements of these companies are combined by adding up similar elements such as assets, liabilities, equity, income and expenses.

Functions of Consolidated Financial Statements

In general, financial reports have the function of evaluating a company's performance and can be used as reference material for investors to assess the credibility of a company. However, consolidated financial reports have other functions that differentiate them from ordinary or independent financial reports. The following are other functions or benefits of this report compared to independent financial reports:

1. More efficient

Because this financial report combines the financial reports of the parent and subsidiary companies, it can be said that the consolidated financial report has a higher level of efficiency compared to the independent financial report. This is of course because the financial reports are presented in one form and there is no need to read them one by one between the parent and subsidiary companies.

2. Can Be Used to Make Long Term Decisions

In accordance with the general function of financial reports which explains that financial reports have the function of evaluating the performance of the company, consolidated financial reports also have this function. However, this financial report also functions to review the performance and development of subsidiaries which can influence the development of the parent company in the long term in the future.

3. Providing Total Information

In the consolidated financial report there is a picture of the total financial report originating from the combination of all company resources under the control of the parent company to creditors, shareholders and other fund providers.

4. Providing Updated Information

5. This consolidated report can also provide updated information for parent company management regarding the financial reports of other subsidiaries.

Procedures for Preparing Consolidated Financial Statements

There are several procedures used to prepare a consolidated financial report. The following are the procedures used:

1. Eliminate All Reciprocal Accounts

This elimination is carried out through an elimination journal to eliminate accounts that have a reciprocal nature or these accounts apparently have the same transactions and are recorded by the parent and subsidiary companies.

2. Preparing Working Papers

This Working Paper is used to simplify the preparation of financial reports. In the preparation procedure used, there are two basics used, namely the individual trial balance and the individual financial report.

Methods for Preparing Consolidated Financial Statements

There are several methods that can be used to prepare a consolidated financial report. The following are three methods that you can use:

1. Equity Method

The equity method has a basic concept which views an investment as a statement of capital made by the parent company to a subsidiary. In this way, the net assets of a subsidiary change due to its operational activities. In this method, investment in subsidiaries is considered equal and

parallel to investment in every other branch company. This equity method also has a reason for its preparation, namely the fact that the parent and subsidiary companies are part of one unit. Therefore, changes that may occur in the rights of subsidiary shareholders must be recognized and recorded in the parent company so that later they can be used to follow and report the financial position and developments in full.

2. Incomplete Equity Method

If the incomplete equity method can be applied correctly then the balance of profit and net profit of the parent company will be the same as the balance and net profit of the consolidation. The equality of the balance and net profit between the parent company and the consolidated company does not always exist. This is due to the incorrect application of the equity method. The problems arising from improper application of the equity method are less serious than they seem. This can be overcome by preparing consolidated financial statements while ignoring the responsibilities of the parent company regarding investments in subsidiaries. This does not constitute a violation as long as the financial report prepared by the parent company or the investor does not publish other financial reports. This incomplete equity method is used by some companies because this type of financial report is only considered a financial report prepared for shareholders.

3. Cost Method

This cost method is used to record investments in shares of subsidiaries. Therefore, dividends from these shares will only be recognized as income by the parent company.

How to Make Consolidated Financial Statements

Just like making independent financial reports, the elements for making consolidated financial reports are also the same. The following are the elements used to create this type of financial report:

- Consolidated income statement.
- Consolidated balance sheet report.
- Consolidated retained earnings statement.
- Consolidated cash flow statement.

These four reports are prepared in the same way as independent financial reports, only at the end of the name the word consolidated is added.

Consolidated financial reports are prepared based on the financial reports of business entities incorporated in the parent company. Consolidated financial statements are not a summary of separate accounting and bookkeeping systems, there are no journals, ledgers, and trial balances of consolidated entities.

In preparing consolidated financial reports, it begins with the process of combining the financial reports of the parent company entity and subsidiary business entities in one worksheet or worksheet. The most difficult part of preparing consolidated financial statements is making adjustments and eliminating certain account balances that need to be adjusted or eliminated. In practice, accounting staff must understand the nature of the transactions in each account and must know the use of each account. Balance adjustments and eliminations must be carried out carefully and thoroughly.

The following are 5 important steps in preparing consolidated financial statements:

1. Make adjustments and corrections to recording errors and omissions that may exist in the financial statements of the parent entity and subsidiaries. Parallel makes adjustments to eliminate profits and losses between companies.
2. Make adjustments to eliminate income and dividends from the subsidiary and return the investment account balance in the subsidiary to the balance at the beginning of the period.
3. Make adjustments to record portions of the account that do not affect the subsidiary's profits and dividends.
4. Eliminate investment balances in subsidiary entities that have been reported in the parent entity's statement of financial position
5. Allocation and amortization of differences in fair value values (if any) and make adjustments to transaction balances between subsidiaries.

You can also create company financial reports automatically and quickly through company financial reporting software. Through this software, companies can shorten company financial reports, avoiding human error when inputting data. Carry out the above process carefully and it would be better if a group of companies used the same Accounting System, so that you can easily compare reports automatically.

Problems in Preparing Consolidated Financial Statements

The most frequently encountered problems in preparing consolidated financial reports:

1. Manual Validation

The initial validation that must be carried out is to ensure that the account code of the subsidiary received has been recorded. If the account code has been recorded, the second stage must check whether this account code has been mapped to the consolidated chart of accounts. Next, it is necessary to check whether there are new accounts related to the elimination process. If a subsidiary uses a different currency, it is necessary to convert at a certain exchange rate (in accordance with the applicable PSAK). Furthermore, manual reconciliation not only prolongs the final stages of consolidation, but also increases the workload of financial professionals, making the entire consolidation process ineffective and of low quality.

2. Low Quality Data

As information flows from different and diverse sources, it takes time to compile. If there are concerns or questions about the data, it will increase the time required to complete the report. Imagine if the staff in charge forgot to update the exchange rates, or the parent company did not check the subsidiary's currency and continued to include the subsidiary's currency in the final report, the results would be very different.

3. Changing Reporting Requirements

Compliance laws and regulatory requirements are constantly changing and increasingly complex. They come not only from the government but also from industry. These changes must also be reflected in the reporting process, which may also mean that the existing consolidated financial reporting process becomes chaotic, and therefore, requires financial personnel to enter information manually.

4. Data Manipulation

Spreadsheets offer a simple look and feel, and anyone can edit them. The freedom to change almost anything in a spreadsheet is the root cause of various frauds and data manipulations that have occurred many times in the past, and even today.

All of the above problems can be solved with the right financial management software. This solution stores all information in one single repository and allows the consolidation and reporting process to occur in real-time, eliminating long wait times for sending data back and forth. Advanced financial management software also allows instant access which can significantly increase visibility. For example, mergers and acquisitions within a fiscal year can easily be added to the system to accurately reflect a business's current financial position or to ensure continuity of year-to-year forecasts.

Consolidated Report Making Structure

In compiling a consolidated report, there are structured steps that can make it easier for you to create it. The following is complete information:

- First check the financial reports from both the parent company and subsidiaries. In this case, you must be very thorough and careful in order to find errors in recording. That way, any errors can be corrected and adjusted immediately.
- Then you have to adjust each existing report to eliminate profits and losses or similar transactions from each company, both from the parent company and subsidiaries.
- Eliminate any income and dividends from the subsidiary then return the balance in the subsidiary's investment account to the balance at the beginning of the period.
- Make adjustments to create a record of the non-controlling interest in the profits and dividends of the subsidiary.

- Then the report in the subsidiary company, eliminates the reciprocal investment balance that was previously in the parent company's financial report.
- Then, don't forget to eliminate the equity that was previously in the financial statements of the subsidiary.
- If there are differences in fair value, carry out amortization and allocation.
- Then also eliminate other reciprocal balances, such as income and free, debts and receivables and others.

CONCLUSION

Making consolidated financial reports has the same parts as ordinary financial reports, namely consisting of balance sheets, income statements and cash flow statements. The consolidated financial statements consist of several consolidated balance sheets, consolidated income statements, consolidated retained earnings statements, and consolidated cash flow statements.

The way to prepare this report is by placing the financial statements of the parent entity and subsidiary entities using a side-by-side method in a consolidated working paper. Preparation using Microsoft Excel and also accounting software.

Preparation for making consolidated financial reports start by looking at the financial statements of the parent and subsidiary companies as a whole. Check records for errors or omissions and correct them. Adjust the report to exclude profit and loss statements between individual companies. Excludes subsidiary profits and dividends. Returns the balance of the subsidiary's investment account as the beginning balance of the period. The write-off of residual balances from a subsidiary's statements is initially reflected in the parent company's financial statements. Removal of previously recognized capital from the subsidiary's finances. Perform settlement and depreciation of value differences. Remove other residues such as debts, income and expenses.

Things you should pay attention to before making a consolidated financial report:

- Pay attention to each account
This report is created by adding the financial statements of the parent company and subsidiaries line by line. The parent company needs to add assets, liabilities, shares, expenses, and income.
- Always distinguish between parent company and subsidiary company investments and equity
In consolidated financial statements, there are several things that should not happen. First, the parent company's investments in subsidiaries are not included in the consolidated financial statements. Second, whatever portion of equity the parent company holds in the subsidiary will not be included in the consolidated balance sheet. If there are intragroup transactions, balances, or income or expenses, they will be removed from the consolidated financial statements. While identifying minority interests, there are several things to keep in mind. First, non-controlling interests for the subsidiary in profit or loss will be identified. And second, each subsidiary's non-controlling interests must be identified separately from the parent's ownership therein. Non-controlling interests must be stated in the equity of the consolidated balance sheet, but must be reported separately from the shareholders' equity of the parent company.
- Make sure the reporting date is the same
When preparing consolidated reports, it is important to note that the reporting dates for the financial statements of the parent company and subsidiaries are the same. If the subsidiary's reporting period is different from that of the parent company, adjustments need to be made by the subsidiary. Adjustments will be in terms of transactions. And it should also be taken into account that the difference in reporting periods between the parent company and subsidiaries should not be more than three months. While preparing consolidated reports, uniform accounting policies are used in preparing these reports.

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