## Objective

- To lay down principles and procedures for preparation and presentation of consolidated financial statements.
- To provide financial information regarding the economic resources controlled by its group and results achieved with these resources.
- Prepared by the parent company in addition to the financial statement prepared by the parent company for only its own affairs.

## Advantages of consolidated financial statements

(i) Single Source Document: From the consolidated financial statements, the users of accounts can get an overall picture of the holding company and its subsidiaries. Consolidated Profit and Loss Account gives the overall profitability of the group.

(ii) Intrinsic value of share: Intrinsic share value of the holding company can be calculated directly from the Consolidated Balance Sheet.

(iii) Acquisition of Subsidiary: The Minority Interest data of the Consolidated Financial Statement indicates the amount payable to the outside shareholders of the subsidiary company at book value which is used as the starting point of bargaining at the time of acquisition of a subsidiary by the holding company.

(iv) Evaluation of Holding Company in the market: The overall financial health of the holding company can be judged using Consolidated Financial Statements. Those who want to invest in the shares of the holding company or acquire it, need such consolidated statement for evaluation.

## Definition of Holding Company

1. " Any company who controls other company is called holding company. "
2. If any company has any one power from following three powers, then that company will be holding company: -
   (a) If any company has 51 % shares of other company, then this company becomes holding Company of other. Or
   (b) if any company has power to appoint board of directors of other company, then this company becomes holding company of other company.

## Subsidiary Company

Subsidiary company is that company which is controlled by any other company. If any company invested his money to buy other company's shares and has bought 51% or more shares or share capital, then that company can become holding or parent company. The company whose shares are bought, will be subsidiary company.

## Legal requirements

1. Accounting Standards 21 Rs Consolidated Financial Statements

   It does not lay down which enterprises need to prepare consolidated financial statements.
2. Clause 32 of the Listing Agreement

   It requires all listed companies to prepare consolidated financial statements in accordance with AS 21 annually and include the same in the annual report.
3. Companies act 2013-Section 129(3) &4

   If a company has one or more subsidiary, it shall prepare consolidated financial statement as per SCH III

## As per AS 21, a subsidiary should be excluded from consolidation when:

1. control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future; or (b) it operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent.
2. In consolidated financial statements, investments in such subsidiaries should be accounted for in accordance with AS 13 Accounting for Investments. The reasons for not consolidating a subsidiary should be disclosed in the consolidated financial statements.
3. However, if the relevant investment is acquired without an intention to its subsequent disposal in near future, and subsequently, it is decided to dispose of the investments, such an investment is not excluded from consolidation, until the investment is actually disposed of.
4. Conversely, if the relevant investment is acquired with an intention to its subsequent disposal in near future, but, due to some valid reasons, it could not be disposed of within that period, the same will continue to be excluded from consolidation, provided there is no change in the intention.
5. Exclusion of a subsidiary from consolidation on the ground that its business activities are dissimilar from those of the other enterprises within the group is not justified because better information is provided by consolidating such subsidiaries and disclosing additional information in the consolidated financial statements about the different business activities of subsidiaries. For example, the disclosures required by AS 17 'segment Reporting's, help to explain the significance of different business activities within the group.