Consolidation of Financial Statements

Consolidation of Financial Statements

1. **Definition**
   - Consolidation combines the financial statements of a parent company and its subsidiaries into a single set of statements as if they were one economic entity.
2. **When Consolidation Is Required**
   - When the parent holds control over a subsidiary, typically through ownership of more than 50% of voting shares.
3. **Key Steps**
   - Eliminate intercompany transactions and balances.
   - Combine assets, liabilities, revenues, and expenses line by line.
   - Recognize non-controlling interest (NCI) for the portion not owned by the parent.
4. **Elimination Entries**
   - Remove intercompany sales, loans, and unrealized profits on intercompany inventory to avoid double-counting.
5. **Goodwill**
   - Arises when the purchase price exceeds the fair value of identifiable net assets acquired; recognized as an intangible asset.
6. **Relevance**
   - Consolidated statements give investors a true picture of the group's overall financial position and performance.