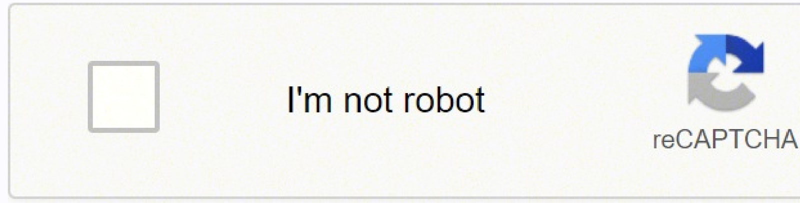
Consolidation ifrs guide



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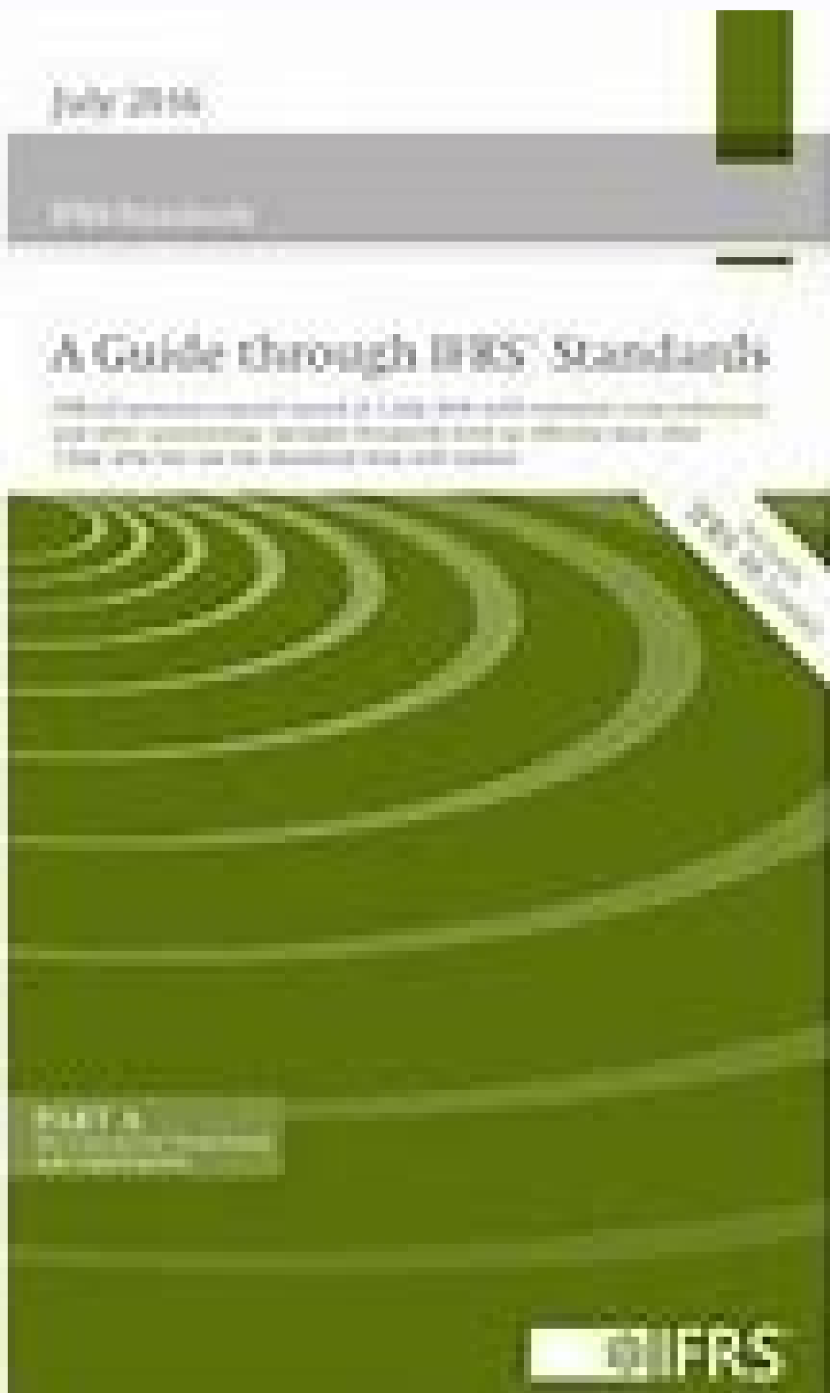
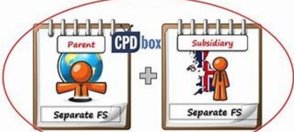
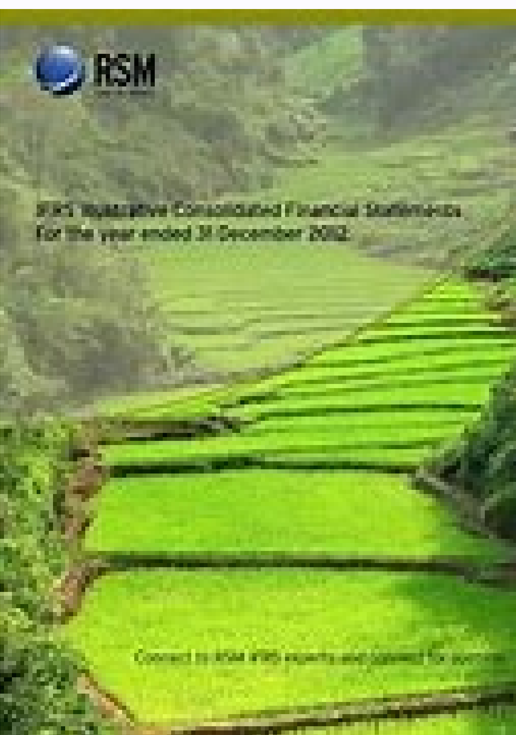


Statement of financial position as at the reporting date	Mommy Corp.	Baby Ltd.
ASSETS		
Non-current assets	160 000	50 000
Investment in Baby Ltd.	10 000	0
Current assets	130 000	150 000
TOTAL ASSETS	**300 000**	**200 000**
EQUITY & LIABILITIES		
Equity		
Share capital	-100 000	-20 000
Retained earnings	-32 000	-2 000
Liabilities		
Long-term debt	-150 000	-175 000
Current liabilities	-18 000	-3 000
TOTAL EQUITY & LIABILITIES	**-300 000**	**-200 000**





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Our Guides to financial statements help you to prepare financial statements in accordance with IFRS Standards. They consist of: Disclosure checklist, which identifies the disclosures that may be required based on currently effective standards; Illustrative disclosures, which illustrate one possible format for financial statements, based on a fictitious multinational corporation; and Supplements to illustrative disclosures, which illustrate additional disclosures that companies may need to provide on accounting issues such as those arising from the COVID-19 coronavirus pandemic. These guides will help you to tell your story based on your specific circumstances: they will help you ensure that your financial reporting provides the information that users need through clear, meaningful and specific disclosures. Find out more Climate change and financial reporting All companies are facing climate-related risks and opportunities and are making strategic decisions in response – including around their transition to a low-carbon economy. Our Climate change financial reporting resource centre provides FAQs to help companies identify the potential financial statement impacts for their business. COVID-19 pandemic and financial reporting The COVID-19 coronavirus pandemic continues to impact companies in different ways depending on the industry and economic environment in which they trade. Investors and regulators continue to pay specific attention to this topic. Our COVID-19 financial reporting resource centre includes articles, blogs and podcasts to help you better understand the accounting and disclosure implications of the COVID-19 pandemic for your company. Follow 'KPMG IFRS' on LinkedIn and check out IFRS Today for the latest content and topical discussion on IFRS Standards. In summary:Consolidated financial statements provide a true and fair view of an organisation's financial health across all divisions and subsidiaries.They are required when one company owns more than 50% of the outstanding common voting stock of another company, but there are many rules and regulations to account for.Consolidation software can help organisations improve the process as well as respond quickly to market changes, make better-informed decisions, and capitalise on new opportunities.In the simplest possible terms, financial consolidation is bringing together, under the umbrella of a parent company, the financial statements of all its subsidiary companies. It means combining all group financials and integrating them into a single source for reporting purposes – but in practice, it's considerably more complex than adding all the corresponding figures together.An incomplete understanding of the issues can lead to significant strategic errors – not least because inter-company transactions can skew the figures – so the purpose of this article is to help companies pick their way through the minefield and avoid the risks. A software system which automates the more complex protocols and delivers real-time reporting, however, will go a long way to making the process easier, faster, and more cost-efficient, and we will cover this later in the article.The overall purpose is to provide a true and fair view of the company's overall position for the financial year. While a parent company and its subsidiaries must each compile their own discrete financial statements, the fact that they are connected and controlled by a common management team means that, to comply with IAS standards, the parent company is under an obligation to show the financial position of the group as if it were a single entity.Consolidated accounts are primarily for the benefit of stockholders, managers and directors of the parent company (if it has a controlling interest of 50% or more). They'll be of less interest to those of the subsidiary companies, who draw no direct benefit from the overall group.It is mandatory for consolidated statements to be prepared when one company has control (i.e. owns more than 50% of the outstanding common voting stock) of another company – unless that control is transitory or outside the hands of the majority owner (e.g. when the company or companies are in administration). This includes subsidiaries, joint ventures and associate companies. With a few exceptions, if a group of shareholders is deemed to be in a position of joint control, or even significant influence then all concerned entities must be included within the scope of the consolidation. Accounting rules differ between the US GAAP protocols and the International Financial Reporting Standards (IFRS). The former is rigid and rule-based, whereas the latter is principle-based, which can potentially mean that the treatment of certain similar transactions might be left open to interpretation. In practice, however, the standards-setting boards have clarified most areas, meaning there tend to be fewer exceptions than in the rules-based system.In general, though, the main differences are:GAAP's bilateral consolidation model distinguishes between variable interest (VIE) and voting interest.Under the VIE model, the parent company is deemed to have a controlling interest if it has: (a) the power to influence the amount of any returns from that company and steer any activities and (b) the obligation to absorb losses or the rights to receive significant benefits.However, even if the parent company does not have a majority shareholding in its investments, the extent of contractual or other agreements may be enough to establish the principle of control and trigger the need for consolidated financials.Under IFRS, however, this distinction does not exist - control is simply considered to exist when the parent company holds more than half of another company's voting power.IFRS establishes the principle of de facto control: even though a parent company may hold less than half the voting interest and no legal and/or contractual rights they may still be deemed to have a controlling interest in certain situations. For instance, where a major shareholder does not have a majority holding in a company, but does have other (widely dispersed) holdings, then other relevant circumstances come into play, such as whether the other owners can vote in a block, to deem whether their interest is considered a controlling one.This is not the case under GAAP. There is, however, a GAAP provision for the concept of effective control in connection with contracts, although this is rarely imposed in practice.IFRS only considers potential voting rights if they're sufficient to enable the holder to steer activities of a company they've invested in. In certain situations, GAAP's VIE model distinguishes between: (a) whether the entity is a VIE or (b) which entity is the main beneficiary of a VIE.IFRS stipulates that consolidated financial statements are presented, as far as possible, in the same format as used by the parent company in its own financial statement, using uniform accounting policies for all like transactions and events in similar circumstances, right across the group. This is not required under GAAP regulations. The complexities of best practice, as you can imagine, are therefore both broad and deep, and you can read more about them here. In its simplest form, a Consolidated Financial Statement will include (for the financial year in question):a balance sheeta profit and loss accountcash flow statementa statement of changes in equity, if applicable; andany explanatory notes to the aboveAnd the basic steps to follow are:1. Record intercompany loans. Intercompany loans from the subsidiaries to the parent company must be documented, along with an allocation for interest income earned on consolidated investments between the companies in the group.2. Charge corporate overhead. If the parent company allocates its overhead costs to subsidiaries, calculate the rate of any overheads to be allocated by the parent company to each subsidiary and charge it accordingly.3. Charge payables. Ensure that all accounts payable during the period have been properly charged to the various subsidiaries.4. Charge payroll expenses. If there is a common paymaster system in place to pay employees throughout the group, ascertain that the payroll expenses have been correctly allocated to all subsidiaries.5. Complete adjusting entries. Document all adjusting entries necessary to make a complete and accurate record of revenue and expense transactions during the period, at both subsidiary and corporate levels.6. Investigate asset, liability, and equity account balances. Confirm that all entries in the asset, liability, and equity accounts for parent and subsidiaries are correct.7. Review subsidiary financial statements. For each subsidiary, print out and review the financial statements. Scrutinise any unusual entries, or any which don't look right.8. Eliminate intercompany transactions. If there have been any intercompany transactions, reverse them at the parent company level to eliminate their effects from the consolidated financial statements.9. Review parent financial statements. Print and review the financial statements for the parent company and investigate any items that appear to be unusual or incorrect.µ10. Review parent financial statements. Print and review the financial statements for the parent company and investigate any items that appear to be unusual or incorrect.11. Close subsidiary books. With some types of accounting software, you may need to flag the financial records of each subsidiary as closed so that no more transactions can be recorded for that accounting period.12. Close parent company books. Once the subsidiary accounts are closed, you must flag the parent company accounting period as closed, so that no more transactions can be recorded for that accounting period.13. Issue financial statements. You can now print and distribute the Consolidated Financial Statements.By now you will have realised that the risks of embarking on such a multivariate and risk-laden project without crucial software support would expose your company unnecessarily. The technical complexity involved in homogenising individual accounts is enough to bring experienced accountants out in cold sweats, so choosing adequate (and specific) software for the task is crucial. The type of package you choose will necessarily depend on the structure and content of your consolidation and on how you validate your data.Considerations for multinationalsMultinational groups have further variables to consider, with language barriers being the least of them. A UK company, for instance, may need to incorporate one or more subsidiaries that report locally under US GAAP regulations. In these cases, best practice would be for the local entities to prepare their accounts under the accounting standards of the parent company.This means mandating all subsidiaries also use IFRS where their local laws allow. Choosing a software package that automates this homogenisation will naturally ensure all companies in the group follow the same policies and obviate the necessity to make changes at a consolidation level.So, what does a Consolidated Financial Statement actually look like? This is a typical example showing the standard format, using a fictitious company. It shows the main statements in different formats and refers to the relevant IFRS paragraphs which they relate to. Source: your consolidation accounting to the next levelWe hope that this has given you a better overall understanding of the requirements of, and processes involved in, Consolidated Financial Statements. You'll also be aware that high-performance, unified and customised software willWe hope that this has given you a better overall understanding of the requirements of, and processes involved in, Consolidated Financial Statements. You'll also be aware that high-performance, unified and customised software will not only make your life easier but could help you avoid potentially catastrophic errors across the group. What's more, it will leave you better prepared for group audits, speeding up the process and reducing auditors' fees.

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