19. CONSOLIDATED FINANCIAL STATEMENTS

There are instances in the life or existence of an NPO, when it creates another company to carry out its mission to be of service to mankind. What happens is that it becomes the sole owner or incorporator, of a new company or corporation which specifies in its articles of incorporation the very objectives that the NPO wants it to achieve. Thus, the NPO becomes the parent company and the newly formed company or corporation constitutes its subsidiary, or its wholly-owned subsidiary. In other words, the NPO is now in control of this company, meaning the NPO shall have the power to govern its financial and operating policies so as to obtain benefits from its activities, as clearly defined by IAS 27, "Consolidated and Separate Financial Statements".

Definition of Terms:

Consolidated financial statements are the financial statements of a *group* presented as those of a single economic entity.

A group is a *parent* and all its *subsidiaries*.

A parent is an entity that has one or more subsidiaries.

A subsidiary is an entity, including an unincorporated entity, such as a partnership, that is *controlled* by another entity (known as the parent).

Control is the power to govern the financial and operating policies of an entity i.e. a subsidiary, so as to obtain benefits from its activities. A corporation becomes a subsidiary when another corporation acquires a controlling interest in its outstanding voting stock. Ordinarily, one corporation gains control of another corporation directly by acquiring a majority (more than 50%) of its voting stock.

IAS 27 states that a parent shall present consolidated financial statements in which it consolidates its investment in subsidiaries in accordance with its provisions.

Control also exists even if the parent owns less than 50% of the voting power of another corporation when there is power over more than half of the voting rights by virtue of an agreement, or to govern the financial and operating policies by the NPO under a statute or agreement. Control is also evidenced by power of the NPO to remove or appoint the majority of the board members or to cast the majority pf votes at meetings of the board.

A. Acquisition cost is equal to the fair values of the identifiable assets and liabilities acquired

ABC Organization, an NPO, pays 90,000 for 100% of the outstanding voting stock of XYZ Corporation, a Rural Bank, on January 1, 2000. At the end of the year, XYZ Corporation's net income and dividends are as follows:

	2000
Net income	25,000
Dividends	15,000

In the books of ABC (Parent)			In the books of XYZ Corporation (Subsidiary)		
Investment in XYZ Corporation	90,000		Cash	90,000	
Cash		90,000	Capital stock		90,000
To record the acquisition of the outstanding voting stock of XYZ Corporation			To record the sale of the outstanding voting stock		
Investment in XYZ Corporation	25,000		NO ENTRY		
Share in subsidiary net income		25,000			
To record 100% share in XYZ Corporation's net income					
Cash	15,000		Retained earnings	15,000	
Investment in XYZ Corporation		15,000	Cash		15,000
To record receipt of cash dividends from XYZ Corporation			To record issuance of cash dividends to ABC Corporation		

In addition, ABC maintains a savings deposit with XYZ Corporation amounting to 7,500.

In the books of ABC (Parent)			In the books of XYZ Corporation (Subsidiary)		
NO ENTRY			Cash	7,500	
			Deposit liabilities		7,500
Just a transfer from "Cash on hand" to "Cash in bank".			To record receipt of deposits from ABC Corporation		

The building facilities of XYZ Corporation are being rented from ABC. Monthly rental amounts to 1,000.

In the books of ABC (Parent)			In the books of XYZ Corporation (Subsidiary)		
Cash	12,000		Rent expense	12,000	
Rent income		12,000	Cash		12,000
To record rental income received from XYZ Corporation during the year			To record rental expense paid to ABC Corporation during the year		

Certain advances are made by ABC from XYZ Corporation amounting to P5,500.

In the books of ABC (Parent)			In the books of XYZ Corporation (Subsidiary)		
Cash	5,500		Advances to ABC Corporation	5,500	
Advances from XYZ Corporation		5,500	Cash		5,500
To record receipt of cash advances from XYZ Corporation			To record issuance of cash advances to ABC Corporation		

At the end of the year, ABC and XYZ prepare their separate financial statements. In addition, ABC shall prepare consolidated financial statements, and this is done by combining the financial statements of the parent and its subsidiaries line by line by adding together like items of assets, liabilities, equity, income and expenses.

To clearly carry this out, a worksheet shall be prepared to present the financial statements of the Parent or ABC in the first 2 columns, and the financial statements of the subsidiary or XYZ in the next 2 columns, or on the 3rd and 4th columns.

In order that the consolidated financial statements present financial information about the group as that of a single economic entity, the following elimination entries are then taken:

1. The carrying amount of ABC's investment in XYZ

a. Share in subsidiary net income	25,000	
Investment in XYZ Corporation		25,000
To eliminate ABC Corporation's share in XYZ Corporation's net income to bring the investment account to its beginning-of-the-period balance		
b. Investment in XYZ Corporation	15,000	
Dividends		15,000
To eliminate the cash dividends from XYZ Corporation to bring the investment account to its beginning-of-the-period balance		
c Capital stock – XYZ Corporation	90,000	
Investment in XYZ Corporation		90,000
To eliminate reciprocal equity and investment balances		

The above elimination entries shall be presented in the next 2 columns, or on the 5th and 6th columns, along the same line of the accounts of both ABC and XYZ. Thus, in the first entry, share in subsidiary net income shall be debited along the line of "Share in Subsidiary Net Income" in the Statement of Operations of ABC Corporation, while Investment in XYZ Corporation shall be credited to "Investment in XYZ Corporation" in the Balance Sheet of ABC Corporation. As one can see, the investment account is reduced by P25,000, and later by the elimination entries on dividends and reciprocal equity and investment accounts, until the Investment account is reduced to zero.

2. Intra-group balances, transactions, income and expenses shall be eliminated in full

d. Advances from XYZ Corporation	5,500	
Advances to ABC		5,500
To eliminate intercompany balances		
e. Deposit liabilities	7,500	
Cash		7,500
To eliminate ABC savings deposit with XYZ Corporation		
f. Rent income	12,000	
Rent expense		12,000
To eliminate inter-company income and expenses		

Following the procedures done in the first set of elimination entries for Investment, Advances from XYZ Corporation shall be debited to the corresponding liability account in the Balance Sheet of ABC Corporation and Advances to ABC Corporation shall be credited to the corresponding asset account in the Balance Sheet of XYZ Corporation. This will totally remove the advances from the accounts of both companies.

In the same manner, Deposit Liabilities shall be debited to the same account in the Balance Sheet of XYZ Corporation, and Cash shall be credited to the same account in the Balance Sheet of ABC Corporation. This entry will reduce these accounts by the same amount.

The next step is to combine the 6 columns and this will result in the consolidated amounts that should appear in the consolidated financial statements.

IAS 27 emphasizes the following points:

1. Intragroup balances and transactions, including income, expenses and dividends, are eliminated in full. Profits and losses resulting from intragroup transactions that are recognized in assets, such as inventory and fixed assets, are eliminated in full.

2. The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same reporting date.

3. Consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances.

In the consolidated financial statements, the consolidated net income shall equal the Parent's net income, and the consolidated equity shall equal the Parent's equity.