

Financial and managerial accounting

Business



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The Underlying Objective of Consolidated Financial Statements Consolidated financial statements refer to the combined financial statements of a group of companies. It shows the financial position of a group of companies as one entity. Consolidation is the process of combining and presenting the individual accounts of a parent company and those of the subsidiary companies as if they were of a single entity.

The consolidated financial statement consists of such consolidated documents as: a cash flow statement, a balance sheet, and a profit and loss account. The underlying objective of consolidated financial statement is to present a collective view of the financial position of a parent organization and its subsidiaries. The papers help to analyze the overall health of the entire company. A parent company can have a subsidiary company in a different industry as a way of spreading the overall business risk. The documents provide information not presented in the separate statement of the parent and subsidiary companies.

Limitations of Consolidated Financial Statements Consolidated financial statement is only prepared at the end of the parent company's fiscal period. If the difference is less than three months, the additional statements may be used with disclosure. The difference between consolidated financial statement and unconsolidated financial statements is the details presented rather than the amount indicated. When a highly diversified company operates across a number of industries, the combination of different data makes analysis difficult. The analyst also cannot see the details that indicate the strengths of the parent company.

If the financial statement for the parent and the subsidiary companies are considered separately, then the analyst can break down more thorough analysis of each department. Analyzing each department separately would help to determine the solidarity of the company. Consolidated financial statement is of little use to subsidiary creditors, non-controlling stakeholders, and regulatory agencies. The consolidated financial statement only reports to the stakeholders the financial position of a parent company and its subsidiary companies. It does not go to the details of the performance of the individual subsidiary companies.