

**CONSOLIDATED  
STATEMENTS FOR  
HOLDING COMPANY  
AND SUBSIDIARIES**

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Consolidated statements for holding company and subsidiaries by H. A. Finney

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**H. A. FINNEY**

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# CONSOLIDATED STATEMENTS

## FOR HOLDING COMPANY AND SUBSIDIARIES

BY

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TO  
MY WIFE AND MY MOTHER





## PREFACE

This book is intended to embrace the principles and procedure involved in the preparation of the consolidated statement of cost of goods sold, the consolidated profit and loss statement, the consolidated surplus statement and the consolidated balance sheet.

Students of accounting who are preparing for the examinations of the various C. P. A. boards or the American Institute of Accountants must be familiar with the subject of consolidated statements for holding companies and their subsidiaries, for the examinations frequently contain more or less complicated problems requiring the preparation of such statements. The income tax law, which requires consolidated returns supported by consolidated income statements and balance sheets, makes a knowledge of the method of preparing these statements imperative for the corporation auditor, the public accountant and the tax counsellor.

It is surprising that the literature which deals with consolidated statements is so meager when one considers that so many accountants and students of accounting are interested in the subject and that the statements themselves may be involved by an almost infinite variety of complications. These complexities arise from the fact that the holding company may or may not account properly for the investments in subsidiary stock; that minority interests may exist; that subsidiary earnings since acquisition may exceed dividends received during the same period, or vice versa; that the holding company may take up as profit the earnings of the subsidiary or the dividends received; that the stock may have been acquired by purchase from former stockholders, by subscription or as a stock dividend; that book value at acquisition may have exceeded cost, or vice versa; that the stockholdings may have been acquired by a single purchase or by several purchases; that the holdings may be in common or preferred stock or both; that inter-company profits may remain unrealized in inventories and in fixed assets; etc., etc.

The book contains a discussion of underlying principles, illustrations showing the procedure of preparing consolidated working papers and statements, and supplementary exercises and problems to be solved by the reader.

On several phases of consolidated statements there is some conflict of opinion as to the proper procedure and considerable variation in practice. This is particularly true in the matters of minority interest in a subsidiary with a deficit, negative goodwill, and reserves for unrealized profit when there are minority interests. Where practice has not been standardized the fact is commented upon, the different methods of procedure are discussed, and the method which seems to the author to be correct in principle is indicated.

It scarcely seems necessary to remind the reader that accounting principles and income tax regulations do not always coincide. Taxable net income and invested capital do not always agree with the figures shown in the revenue statement and the balance sheet, yet these statements are the basis of a corporation's tax return, and the consolidated profit and loss statement and balance sheet are the basis of a consolidated return. This book is not an interpretation of the regulations pertaining to consolidated returns, but is an explanation of the accounting principles underlying the consolidated statements which must be submitted in support of the return.

The author wishes to acknowledge his obligation to his friend Roy Hall, C.P.A., who read the manuscript and offered helpful criticisms and suggestions.

H. A. FINNEY

Chicago, Illinois  
May 15, 1922

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