



**KAPITEL 6 / CHAPTER 6<sup>6</sup>**  
**COMPOSITION AND PRESENTATION OF CONSOLIDATED FINANCIAL  
STATEMENTS OF A GROUP IN ACCORDANCE WITH NAS AND IFRS**  
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## **Introduction**

During the post-war recovery of Ukraine's economy and the intensification of European integration processes, the importance of business consolidation is steadily increasing, acquiring strategic significance for the stabilization and further development of the national economy. This tendency is driven by the need to concentrate financial, material, and human resources, enhance management efficiency, and strengthen the competitiveness of Ukrainian enterprises in both domestic and international markets. The consolidation of business entities promotes the rational use of resources, improvement of production and financial mechanisms, attraction of investment, expansion of foreign economic activities, as well as the implementation of innovations and modern management practices.

These processes lead to a growing number of stakeholders – both internal and external users of financial information – who require reliable, comprehensive, and transparent data to make managerial, strategic, and investment decisions. In this context, the role of high-quality accounting and analytical practices becomes increasingly significant, particularly in the activities of joint agricultural enterprises, where the objectivity and consistency of information are of critical importance. Consolidated financial statements provide a comprehensive view of the financial position and performance of such entities, allowing for a deeper assessment of their potential, risk exposure, and management efficiency. Moreover, they enhance trust among investors, partners, and government institutions, thereby improving the overall business reputation of enterprises.

Therefore, accurate and high-quality consolidated reporting serves not only as an essential tool for internal control but also as a key factor in strengthening the image of Ukraine's economy on the international stage. It contributes to improving financial

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<sup>6</sup>*Authors: Manachynska Yuliya*



stability, fostering a positive investment climate, and creating favorable conditions for sustainable economic growth. Under the conditions of martial law and the gradual restoration of the country's economic potential, transparent financial reporting becomes a cornerstone for rebuilding trust in the business environment, revitalizing economic activity, and ensuring the steady progress of the state in the post-war period.

## **6.1 Regulatory framework for the preparation of consolidated financial statements of a group**

The process of preparing consolidated financial statements in Ukraine is carried out in accordance with the provisions of the National Accounting Standards (NAS), in particular NAS 1 «General Requirements for Financial Statements» [1] and NAS 2 «Consolidated Financial Statements» [2]. These regulatory documents define the structure and composition of the main forms of consolidated reporting, which include:

- Consolidated Balance Sheet (Statement of Financial Position) – Form No. 1-k;
- Consolidated Income Statement (Statement of Comprehensive Income) – Form No. 2-k;
- Consolidated Cash Flow Statement – Form No. 3-k;
- Consolidated Statement of Changes in Equity – Form No. 4-k;
- as well as Notes to the Consolidated Financial Statements, which provide detailed explanations and clarify the contents of individual line items.

The procedures for accounting and reporting business combinations, including the recognition and measurement of goodwill, are regulated by NAS 19 «Business Combinations» [3] and NAS 12 «Financial Investments» [4]. These standards establish the principles for accounting transactions related to the acquisition of controlling interests, determination of investment value, and presentation of consolidation results in the financial statements.

According to Article 3, Section 1 «General Provisions» of NAS 1, consolidated financial statements are defined as a set of reports of an economic entity exercising control together with the financial statements of entities under its control, thereby



forming a single economic unit [9].

Section II of NAS 2 «Procedure for Preparing Consolidated Financial Statements» [2] outlines the key requirements for harmonizing and unifying data within a corporate group. In particular, it stipulates that:

- the financial statements of the parent and subsidiary enterprises must be prepared for the same reporting period and as of the same balance sheet date;
- a unified accounting policy must be applied by all entities within the group for similar transactions and events under comparable circumstances;
- if a subsidiary applies a different accounting policy, its figures must be adjusted to ensure data comparability;
- consolidation of financial indicators is performed through systematic aggregation of the financial data of subsidiaries with the corresponding figures of the parent company.

A separate procedure governs the preparation of consolidated reports for public sector entities. Ministries, other central executive authorities, and local self-government bodies that manage state or municipal enterprises are required to prepare aggregated consolidated financial statements reflecting the summarized results of their subordinate entities.

When preparing consolidated financial statements, the following intra-group items are eliminated:

- the carrying amount of the parent company's financial investments in each subsidiary and its corresponding equity interest;
- balances and results of intra-group transactions;
- unrealized profits and losses from intra-group operations (except for losses that cannot be recovered).

The parent company determines the *non-controlling interest* in the equity, net profit (or loss), and comprehensive income of its subsidiaries. This figure is calculated as the product of the percentage of voting rights not owned by the parent company and the corresponding share of equity, financial results, and comprehensive income of the subsidiaries, taking into account unrealized intra-group profits or losses, except in



cases of mergers or acquisitions.

If, a subsidiary issues preferred shares classified as equity instruments that accumulate dividends for external shareholders, the parent company must determine its share of profit or loss after adjusting for such dividends, regardless of whether the dividends have been formally declared.

## **6.2 Conditions for preparing and exemption from submitting consolidated financial statements**

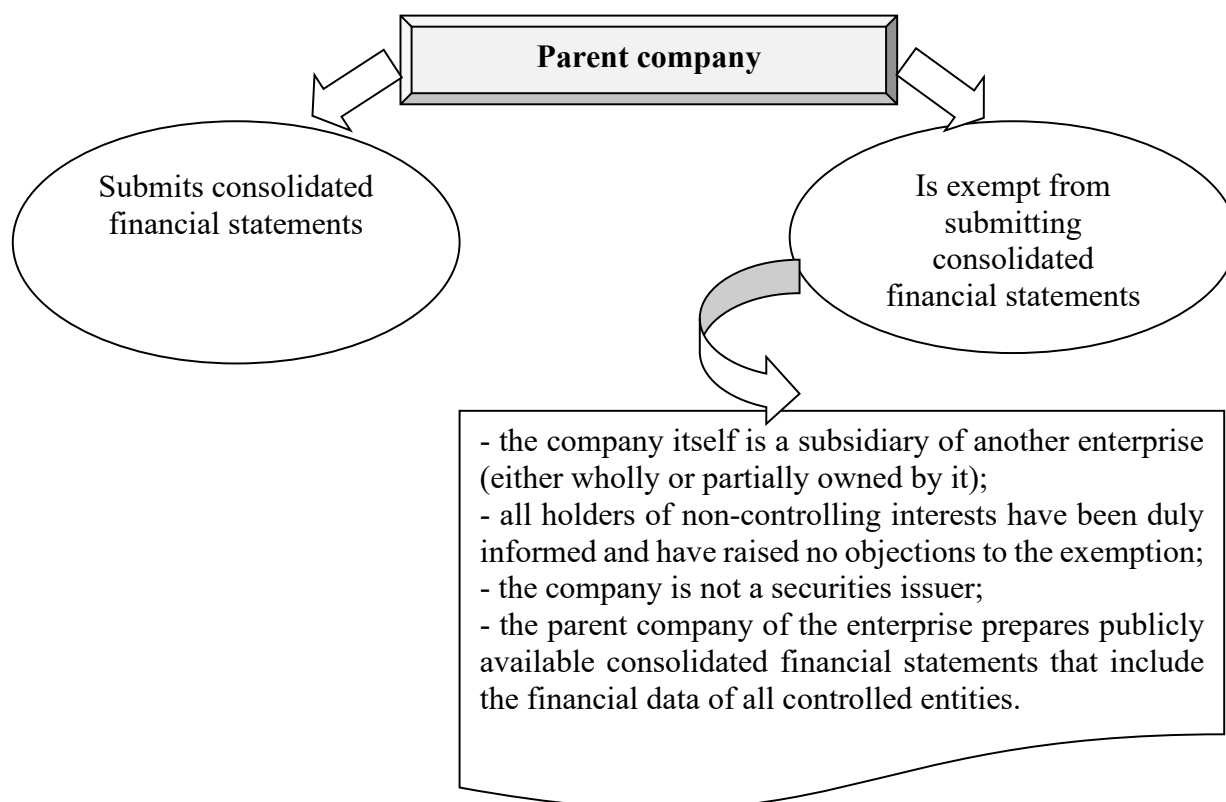
The process of preparing consolidated financial statements involves determining the value of goodwill that arises when the financial results of a parent company are combined with those of its subsidiaries. Additionally, the process includes the assessment of the non-controlling interest that emerges during mergers or acquisitions. The calculation of these indicators is carried out in accordance with the requirements of National Accounting Standard (NAS) 19 «Business Combinations».

If subsidiaries operate outside Ukraine, their financial statements must be converted into the national currency during consolidation. The resulting exchange rate differences are determined according to NAS 21 «The Effects of Changes in Foreign Exchange Rates».

Consolidated financial statements encompass the financial data of both the parent company and its subsidiaries, providing a comprehensive and objective view of the financial position and performance of the entire group.

In cases where the parent company intends to exercise its right to an exemption from the requirement to prepare consolidated financial statements, it must first obtain written consent from all holders of the non-controlling interest. These holders must be formally notified in writing about the decision not to prepare consolidated statements. Only after receiving written confirmations from all non-controlling shareholders can the parent company lawfully apply this exemption.

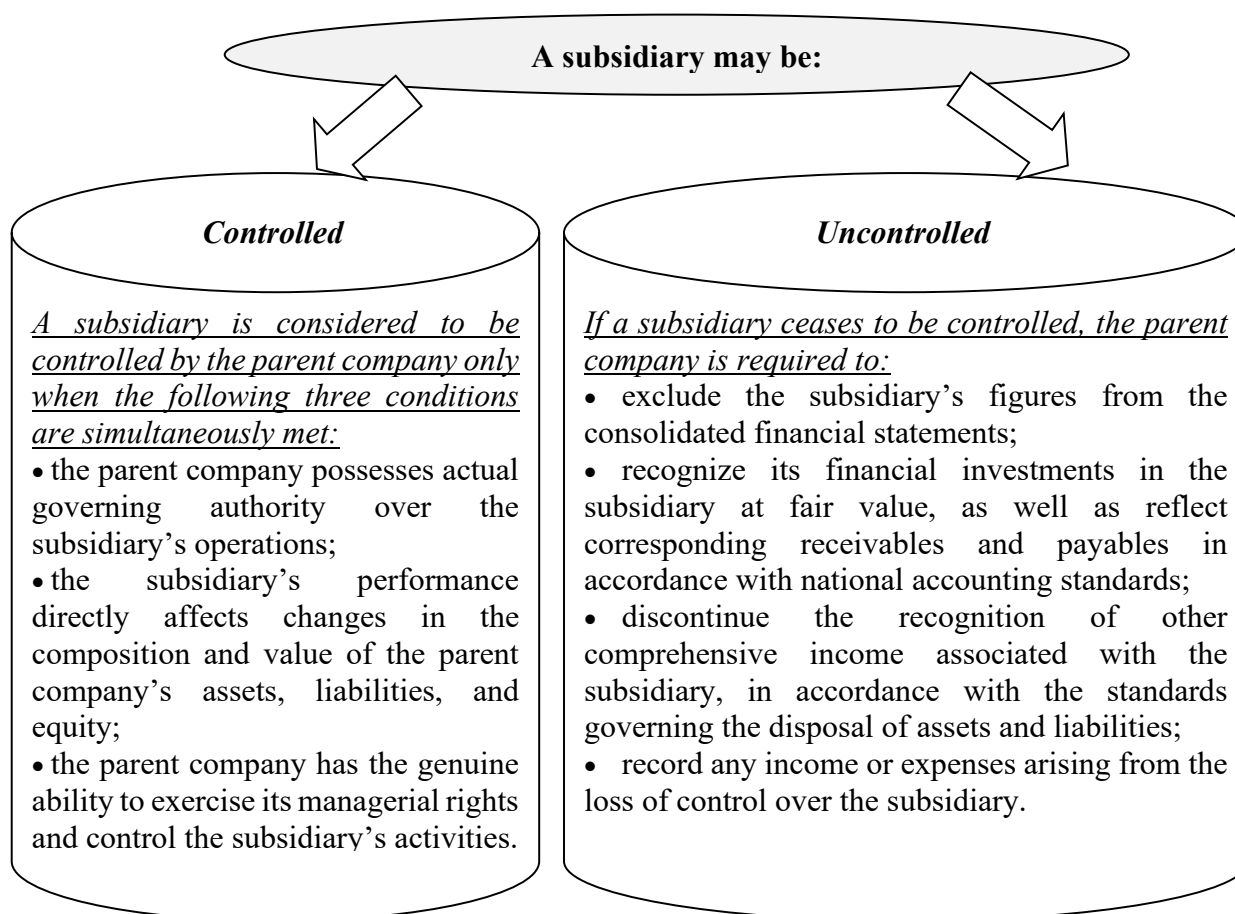
According to the provisions of NAS 2, a parent company may be exempt from submitting consolidated financial statements only under specific conditions (Fig. 1).



**Fig. 1 - Conditions under which the parent company is exempt from submitting consolidated financial statements**

The mere presence of certain rights granted to an investor for the protection of their interests does not, by itself, constitute evidence of control over an enterprise. Figure 2 illustrates examples of situations in which a subsidiary is under the control of a parent company, as well as cases where such control ceases to exist.

According to Section II, «Procedure for Preparing Consolidated Financial Statements», of the National Accounting Standard (NAS) 1 [1], the financial statements of all entities within a group must be prepared for the same reporting period and as of the same balance sheet date. Consolidated financial statements must also be compiled based on a unified accounting policy applied across all group entities, particularly regarding similar business transactions and events occurring under comparable conditions. If any entity within the group uses an accounting policy different from the one adopted for consolidation purposes, appropriate adjustments must be made to its financial indicators to ensure consistency and comparability of information [1].



**Fig. 2 - Conditions under which a subsidiary is controlled and when it ceases to be controlled**

Thus, the establishment or loss of control over a subsidiary directly affects the preparation of consolidated financial statements, influencing the valuation of assets, liabilities, and the composition of the group's equity. This ensures an accurate and transparent representation of the financial position and performance of the entire corporate group.

In accordance with the provisions of Article 4, Section II of the National Accounting Standard (NAS) 1 [1], certain indicators must be mandatorily eliminated when preparing consolidated financial statements. Specifically, this applies to the carrying amount of the parent company's investments in each subsidiary, as well as the corresponding share in their authorized capital. In addition, all intragroup transactions and balances arising between entities within the same group, as well as unrealized profits or losses resulting from such transactions, are subject to elimination.



A parent company may be exempted from submitting consolidated financial statements if the following conditions are met:

- it is itself a subsidiary that is wholly or predominantly owned by another company, and the owners (including minority shareholders) have been informed and do not object to the parent company's decision not to prepare consolidated financial statements;

- its debt or equity instruments are not traded on public financial markets, including national or foreign stock exchanges, over-the-counter markets, or regional trading platforms;

- the company has neither submitted nor participated in the submission of its financial statements to securities regulators or other competent authorities for the purpose of issuing any class of financial instruments on public markets;

- consolidated financial statements intended for public use are prepared by another, higher-level parent company (either ultimate or intermediate) in accordance with the International Financial Reporting Standards (IFRS).

### **6.3 Accounting policy adopted by the enterprise for the preparation and presentation of consolidated financial statements**

The accounting policy of an enterprise encompasses a set of principles, methodological approaches, rules, agreements, and procedures adopted by the organization to ensure the preparation and presentation of reliable financial statements.

The process of consolidating financial statements consists of several sequential stages:

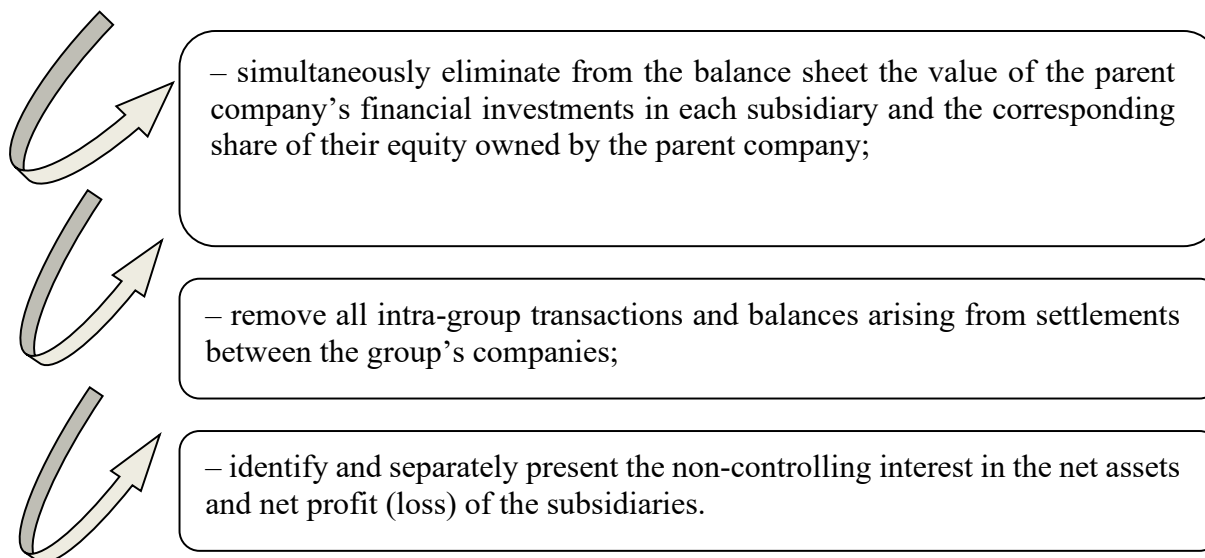
- preparing reports by all entities within the group;

- making the necessary adjustments during the consolidation of financial data

(Fig. 3);



To ensure that consolidated financial statements accurately reflect the financial position of a group as a single economic entity, the following adjustments should be made during the consolidation process:



**Fig. 3 Adjustments in the consolidation process**

The purpose of consolidated financial reporting is to provide a complete, truthful, and objective representation of the financial position, performance results, and cash flows of the parent company together with its subsidiaries as a single economic entity. In accordance with international standards, the preparation of such statements must be based on established principles and methodological approaches that define the requirements for their formation. A detailed analysis of these provisions is presented in subsection 1 of this chapter.

The main principles for preparing consolidated financial statements are summarized in Table 1.

The parent company or its subsidiary may act either as an investor in an associate company or as a controlling participant in a joint venture. In such cases, consolidated financial statements are prepared in accordance with IAS 28 «Investments in Associates» [7] and IAS 31 «Interests in Joint Ventures» [8]. In addition to the consolidated statements, the entity also prepares separate financial statements.

**Table 1 - Key principles of preparing consolidated financial statements [6]**

No.	Principle Name	Description
1	2	3
1.	<i>The principle of completeness</i>	requires that all assets, liabilities, prepaid expenses, and deferred revenues of all entities within the group be fully reflected in the consolidated statements, regardless of the parent company's ownership share in their capital. The minority interest, i.e., the portion of net profit or loss and net assets of subsidiaries not owned by the parent company, must be shown separately in the balance sheet.
2.	<i>The principle of fair and reliable presentation</i>	stipulates that the consolidated statements must be logically structured, easy to interpret, and provide complete, objective, and unbiased information about the assets, liabilities, financial condition, and performance of all entities within the group.
3.	<i>The principle of determining equity</i>	is based on the premise that the total equity of the consolidated group is calculated taking into account the book value of shares of the consolidated entities, their financial results, and established reserves. This principle is grounded in the notion that the parent and subsidiary companies are viewed as a single economic unit.
4.	<i>The principle of consistency in applying consolidation methods and the going concern principle</i>	imply that the selected consolidation methods should be applied consistently as long as the group continues its operations. Changes in methods are permitted only in exceptional cases, provided they are properly justified and disclosed in the notes to the financial statements.
5.	<i>The principle of materiality</i>	requires that the consolidated financial statements include only information that is significant for users and could influence their managerial or financial decisions.
6.	<i>The principle of uniform valuation methods</i>	demands that, during consolidation, the parent company apply the same valuation methods as those used in its own financial reporting. This ensures methodological consistency in the accounting practices of all group entities.
7.	<i>The principle of a single reporting date</i>	requires that the consolidated financial statements be prepared as of the same date as the parent company's statements. If significant events occur between the reporting dates of the subsidiaries and the parent company, the subsidiaries' data must be appropriately adjusted.
8.	<i>The principle of a uniform accounting policy</i>	mandates that consolidated financial statements be prepared using consistent accounting policies for similar transactions and events occurring under comparable circumstances. If the use of a single accounting policy is not feasible, this fact must be disclosed in the notes to the financial statements, along with an indication of the items to which different accounting approaches were applied.

Separate financial statements are documents prepared by the parent company, an investor in an associate, or a controlling participant in a joint venture, in which



investments are accounted for based on the principle of direct ownership interest.

## **Conclusions**

The conducted study provided a deeper understanding of the essence, content, and key principles of preparing consolidated financial statements as a crucial tool for managing a group of enterprises. Consolidated reporting ensures a comprehensive and reliable representation of the financial position, performance, and cash flows of the parent company along with its subsidiaries, which operate as a single economic entity. The preparation of such statements requires strict adherence to methodological approaches and standards that guarantee transparency, consistency, and objectivity of the information presented.

A critical component in the process of preparing consolidated financial statements is the enterprise's accounting policy, which defines the principles, rules, and procedures for compiling financial data. Consistency of accounting policies across all group members is essential for the accuracy and completeness of the consolidated information. The use of uniform valuation methods, standardized approaches to recording transactions, and adherence to a single reporting date contributes to the creation of a clear and comparable financial picture of the entire group.

Adherence to the main consolidation principles – such as completeness, fair valuation, materiality, consistency of methods, and uniform accounting policies – ensures an objective presentation of the group's financial results and equity. This approach helps to prevent double counting and intra-group distortions, providing users of the reports with reliable information for making informed management decisions.

Thus, consolidated financial statements are a key element of the modern corporate governance system. They enhance transparency of enterprise activities, ensure effective control, support strategic planning, and facilitate informed decision-making at the group level. Further research should focus on improving national accounting standards and harmonizing them with international norms to enhance the comparability and quality of financial information.