Consolidation Financial Statement Process Procedure: Case Study at PT XXX

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Abstract: The The company which has the subsidiaries need a financial statement that can show their financial performance as a whole or as one economic entity for better decision making. The purpose of this research is to show how a company should prepare consolidation financial statement, that previously never been made. The case study research is conducted in a firm that has 53 subsidaries, divided into 7 subholding. The process starts with overhauling the financial statement preparation process because the companies do not have standard for preparation financial statement, from policy making to step by step procedures. To produce consolidated financial statement the company should have standard operating procedure for preparing financial statement and consolidated financial statement. This standard operating procedure should be easily to understand and can be used by everyone. It is concluded that through this process, the consolidated financial statement could assists management in solving financial and management can take srategic decision.

1 INTRODUCTION

Today companies need fund for develop their bussiness. These fund can be from bank or public. To get that companies need something to be presented. Companies need financial statement to be presented. Financial statement use by a single company, if the company have subsidiaries they must use consolidation financial statement. Financial statement use to povide infomation on the financial position, financial performance and cash flow, that's it used to decision making (Ikatan Akuntan Indonesia, 2017). The financial statement it is to show performance to bank or public. If the financial statement shows a good performance, then bank or public trus to lend their funds to the company.

PT XXX founded about fifty years ago. PT XXX has 53 subsidaries, divided into 7 subholding. the subsidiaries is engaged in mining, forestry, agribusiness, service, and media. All companies not produce financial statement uniformly both in the presentation or timing. When financial statement has not produce uniformly so financial statement could not used for a decision making by management. Is financial statement cannot be used for a decision making so the reports is to be difficultof being consolidation financial statement.

Company cannot produce consolidaton financial statement without good financial statement from subsidiaries. Good financial statement can be produce with a good standar operational procedure. If company has no standar operational procedure and only counts on individual employee, the report cannot be use to decsion making. Company must produce consolidation financial staement if they have subsidiaries. Consolidation financial statement can be use for fund from bank or public and management can notice performance from parent company and subsidiaries.

2 THEORICAL FRAMEWORK

To make someone to able to do something new and unusual so required a standard operational pocedure. Standard operational procedure is a procedure to or the phase that recorded and the need to be done to settle a certain processes and standards that written used to achieve a purpose organization (Kasma, 2012). Standard operational procedure divided into

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three parts: system, procedure and step. Sytem is activities, procedure is more detailed explanation on activity, and step are the activities of the procedure more detailed (Stup, 2001). Standard operational procedure as guidance to ensure decision, effective, consistent, standard and systematic (Tambunan, 2012).

Standard operational procedure advantages for the an organization in order to measuring of employee performance, as a guide and communication and supervision and they also aasisted an employee to know what will be they achieved (Kasma, 2012). Standard operational procedure relating to a quality management system because standard operational procedure constituting a standard so the process taht ocurs be likened to the presence of International Organization of Standardization (Tambunan, 2012). Standard operational procedure have a purpose and functions to keep the consistency and level performance employees. Knowing clear the role and funtion of every position, clarity of groove duty, the authority and responsibility, protects organizaion of malpractice and to avoid default, doubt, duplicate and inefficiency. To be legal basis made guide and emloyee dicipline (Kasma, 2012).

Presenting the financial statements must follow prevalling accounting standard. Standard was not should be used all, because standard built upon each interest. Any entity an choose principle, basic, rules and procedures accordance whir what is needed the entity in making and presenting financial statement. By choosing principle, basic, regulation and procedure iti is expected entity can make and presenting finacial statements appropriated for the conditions.

Financial statments is a presentation of structured of financial position and financial performance an entity. Complete financial statements consisting of (Ikatan Akuntan Indonesia, 2017):

1. Statement of financial position
2. Statement of comprehensive income
3. Statement of changes in equity
4. Statement of cash flows
5. Note to financial statements

Intercompany transaction is parties that were considered to have special relation if one side has te ability to control the other hand or having significant upon the parties other in decision making of financial and operational (Ikatan Akuntan Indonesia, 2017). Calsified of intercomapny transaction are:

1. The same entity under control
2. Associate company
3. Individiuals having significant entity to control or influence.

One of the reasons was intercompany transaction is to make cash flows more flexible (Cripe, 2016). Intercomapny transaction can be done in four way; intercomapny transaction – sales, intercompany transaction – working capital, intercomapny transaction – royalti and intercompany transaction – services. Intercomapny transaction can also be some problems when not in control (Volmer, 2016). The various ways that could be done to anticipate difficulties are likely to occur at a later date : the standard policy, central of intercompany transaction, master data, cash flow strategic management and use third parties for reconciliation.

Encounter turns and developing economic enviroment, one alternative to way to can survive and to encounter the change of was with business combination (Mortensen, 1994; Chi&Tang, 2007;de Souza 2016). For mergers and acquisitions can be divided into three categories (Moeller ,2009; Ferrer,2016): strategic reason, financial reason and organizational reason. Some benefits when they commit combination business is improving efficiency in capital, skill development,reduce repetition in production and increase economies of scale (Ravenschaft,1987;Ferrer,2016). Business combinationis the union of business entity, business combination is one of the way the company to develop business gradually. Business combinations can be divided into three types of (Beams, 2016): horizontal integration, vertical integration and conglomeration. Business combination been held by the because some thing: cos advantage, minimize risk, reduce delay, avoid takeover, acquisition intagible asset and other reason.

Consolidated financial statement has objective unite report holding company and subsidiaries, to process of consolidating done by holding company because it has interest in subsidiaries (Lemus, 2016). Several criteria consolidated finacial statement according to acounting bulletin No. 51 is:

1. Holding comapny must have voting rights and share 50% or more at subsidiaries.
2. Holding company have control at subsidiaries.
3. When in the near future the company plans to sell subsidiaries, better in consolidated financial statement is not included subsidiaries.
4. Both holding and subsidiaries should do each opearations.

In addition to mention the citeria should be owned an a consolidated financial satement, there are two provisions tht must beperformed in consolidated finacial statement (Schroeder, 2014). First, asset and liabilities that were owned both holding and subsidiaries could not recognized repeated. Second, the company could not acknowledging income of itself.

3 RESEARCH METHOD

Type research used researchers is type research a mixture, qualitative and quantitative. So as to be visible process of consolidating wich was already carried out and see the step of fist data can be presented. By using type research that mix is expected to be capable of producing deep an explanation. Researchers conducted the collection of qualitative data by giving the types of questions to the source of information. Functions and the use of qualitative research is to researched about matters relating to subject of study background. Better understand phenomenon that until noe not widely known, to determine a new perspective about matter which has been known, used by researchers who want examining something in depth, used by researchers willing to analyze something background and researchers who want to use matter that not widely kwoen science. While to add accuracy or truth data on research, the researchers add type the research by using type quantitative research support creating data from the consolidated financial statement.

Data collection method in this research was:

1. A literature review, be conducted by way of check of literature dealing with the accounting standard guidelines.
2. The field study , done by looking at the process of making the consolidation of those wich have occured and discussions with the related in the preparation conslidated financial statement.
3. Case studies, conducted by means of implement procedure would be made in consolidated financial satement.

4 ANALYSIS

This research began with a restructuring company. a result of restructuring done this is the intercompany transaction. After seeing restructuring and see intercomapany transaction needs to preparation of financial statement and consolidated financial statement.

4.1 Restructuring Company

Restructuring which is done by PT XXX and subsidiaries wich has been done since the beginning of 2010, that the reason were:

1. Strategic Reason
   PT XXX restructure this is done to encounter the market which keeps growing company so going concern awake.
2. Organizational Reason
   PT XXX and subsidiaries want to grouping company to the core business from each company that the company focus on ability to carry out and non operational the core business.

PT XXX and subsidiaries do a combianation business with do vertical integration and conglomeration. Vertical integration, PT XXX and subsidiaries have company from upstream and downstream. Conglomeration , PT XXX and subsidiaries perform the merger that had nothing to do business at all. Resructuring ondusted by PT XXX and subsidiaries had several advantages; costs advantages, the risk that smaller, reduce delay and avoid the firm outer force from take over. Besides the profit gained there are several obstacle faced the company, communication among parts and recording the cash flows.

4.2 Intercompany Transaction

Which transactions are conducted by PT XXX and subsidiaries done under the same control, with the association and with individuals having significant to the control or influence. The transaction conducted by way of intercompany transaction – working capital and intercompany transaction – services. Intercompany transaction – services they had experienced no diffcultly daily in the operation because transaction by virtue of contract as well as the documentaion.

Intercompany transaction – working capital who has six combination transaction, transactions seemed having problems inculding: no standard policy for intercompany transaction, no central control for intercompany transaction, no standard master data, there is no startegy cash management for intercompany transaction and transfer pricing documentation issues.

4.3 Financial Statement

Some financial statement the company has a mismatch. Some company not doing maintenance for account recivable, inventory, retained earning, tax, investation, deffered cost, payable, bank, and prepaid expense. This happened in some companies that have not audit. this mismatch make management cannot make decision making for each companies. If management use this financial satement for decison making is useless.

4.4 Consolidated Financial Statement

A person in charge of consolidated financial statement PT XXX and subsidiaries do not have written schedule to settle consolidated financial statement. Consolidated financial statement PT XXX and subsidiaries still adjusted to the needs of subsiadiary. When the companies need to compliment data to bank PT XXX took less than a month to prepare the statement. The time it takes were due to but does consolidated financial statement PT XXX responsible for it must build consolidated financial statement for subholding forestry, mining private, media, services and CSR.

In addition responsible for the have to manage financial statement some companies. ERP used by PT XXX and subsidiaries is can accommodate consolidated financial statement, but human resource to turn on consolidate dfinancial statement less both in the number of quality. PT XXX use application spreadsheets to consolidate.

At the time of cosolidating in PT XXX, there are several problems: maintenance chart of account, manintenace vendor and customer, maintenance investation, and maintenance revenue and cost. With constrain occuring in PT XXX, the PT XXX and subsidiaries consolidated financial statement has been done for necessary management to see performance has been done during a priod back and prepare strategic plan to be taken companies in the future.

Income is recorded in income in statement of comprehensive incomes from the third parties: income over loading and unloading conducted port, income over coal transportation services, coal on the sale of income, income on the sale of crude palm oil, and income on the sale of logging. The gain was contribute 99% PT XXX income. Subholding media, services and csr still not contribute PT XXX income. Consolidated working paper for revenue could not give details income and a burden is intercompany transaction. Intercompany transaction still problems. Operating income is good enough to classify based on customer income, but for business costs is still difficult to classify based on vendor. A vendor undetermined according to cause in the elimination income and load happened the difference. The difference thi will make a statement unbalanced, so as to lessen the difference is that refferedto be income is classified according customer. Thus, the be eliminated in accordance incomes and there is no difference.

5 RESULTS

The results of the research is PT XXX are not yet having standard operational procedure to produce financial statement and consolidated financial statement. The absence of standard operational procedure make reprts that produced is not uniform.

Do not inconsistency in this report can be seen from: irregular intercompany transaction – working capital, irregular chart of account, cannot determined income and cost and some account not manage in well. Therefore the financial statement and consolidated financial statement cannot produce very well.

6 CONCLUSIONS

PT XXX restructure gradually done since 2010 until now. Restructuring is done is doing business combinations by means of vertical integration and conglomeration. Restructuring use vertical integration and connglomeration can be seen by previously only one company and now total 53 company from uptream to downstream. This process is one way to company can survive the market.

One of the result of restructuring is intercompany transaction. Intercompany transaction divide into two; intercomapny transaction – services and intercompany transaction – working capital. intercompany transaction – working capital no in writting hence often made a mistake in recording in some transactions resulting in difficultly on reconciliation. Reconciliation would be easier to policies standard for intercompany transaction.

Every month PT XXX and subsidiaries a Statement of financial position, Statement of comprehensive income and Note to financial statements. Such financial statement served in a incomplete there were Statement of changes in equity and Statement of cash flows. Statement of cash flows ake by finance only income reduce by cost per month. There is no witten caused no inconsistency the financial statement.

How the completion os financial statement and maintenance account in the report well to simplify company to preparing consolidated financial statement. But because the procedure he preparation of reports on PT XXX there has been no, then give impact in preparing consolidated financial satement it should be right time and well for management. Now consolidated financial statement PT XXX and subsidiaries are adjusted to the needs, if companies need a complemetary data to bank then PT XXX took less than a month to prepare the report. In preparing consolidated financial statement timely and appropriate for management needed a written sandard operational procedure. So consolidated financial statement can be used for decision making.

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