Ramesh Pachiannan

This document contains the explanation to important financial concepts

Financial Concepts

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## Intercompany Matching

                Intercompany matching is the recording of transactions between affiliated companies where they are matched between reporting units for the purpose of elimination and reconciliation. Child companies should have reciprocal records of transactions including: intercompany receivables, payables, sales and purchases.

                Before you post intercompany transactions to an intercompany account, you can perform a matching process to ensure that both the entity and its partner entered the transaction.

                Example: For an intercompany sales transaction from Entity A to Entity B, an Accounts Receivable entry in Entity A should have a corresponding Accounts Payable entry in Entity B.

                Features: ParentCompany, ChildCompany, TransactionId, Amount, Currency

## Intercompany Booking

                Intercompany booking records the declarations and reported balances by other entities against a particular entity. This allows business users within each reporting entity to run a report that matches all of its declarations and reported balances against the balances of the rest of the entities, without having to assign to each owner read-access for other entities. Bookings that make the Intercompany declarations match can be automatically generated, and details can be posted to the consolidation model.

                Example: Lets say Company A (which is in USA) transfers 10000$ to its subsidiary Company B in India. Because of appreciation / depreciation, booking the difference in either account is called Booking

                Features: Account, ParentCompany, ChildCompany, Amount

## Intercompany Elimination

                Intercompany eliminations are used to remove from the financial statements of a group of companies any transactions involving dealings between the companies in the group. There are three types of intercompany eliminations, which are:

                Intercompany deb: Eliminates any loans made from one entity to another within the group, since these only result in offsetting notes payable and receivable, as well as offsetting interest expense and interest income. These issues most commonly arise when funds are being moved between entities by a centralized treasury department.

                Intercompany revenue and expenses: Eliminates the sale of goods or services from one entity to another within the group. This means that the related revenues, cost of goods sold, and profits are all eliminated. The reason for these eliminations is that a company cannot recognize revenue from sales to itself; all sales must be to external entities. These issues most commonly arise when a company is vertically integrated.

                Intercompany stock ownership: Eliminates the ownership interest of the parent company in its subsidiaries.

                Example: If a transaction made between two companies in the same group, that can be eliminated

                Features: ParentCompany, ChildCompany, TransactionId, Amount, Currency

## Cash Flow

                Cash Flow is the net amount being transferred in and out of a business

                Cash flow - Net amount of cash and cash-equivalents being transferred into and out of a business. At the most fundamental level, a company’s ability to create value for shareholders is determined by its ability to generate positive cash flows, or more specifically, maximize long-term free cash flow.

## Consolidated Balance Sheet

                a statement that shows the financial position of a parent company and its subsidiary companies at a specified date by listing the asset balances and the claims on such assets. Businesses are often operated as a group of companies and the consolidated balance sheet shows the combined results of the group.

## Consolidated Income Statement

                Consolidated financial statements combine the financial statements of separate legal entities controlled by a parent company into one set of financial statements for the entire group of companies.