

AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS

Question 1

While doing the audit of consolidated Financial Statements, which current period consolidation adjustments are to be taken into account?
(8 Marks) (June 2009)

Answer

Current period adjustments are those adjustments that are made in the accounting period for which the consolidation of financial statements is done. Current period consolidation adjustments primarily relate to elimination of intra-group transactions and account balances including intra-group interest paid and received, or management fees, unrealised intra-group profits on assets acquired from other subsidiaries; intra-group indebtedness; adjustments related to harmonising the different accounting policies being followed by the parent enterprise and its subsidiaries; adjustments made for the effects of significant transactions or other events that occur between the date of the financial statements of the parent and one or more of the components, if the financial statements to be used for consolidation are not drawn upto the same reporting date; and determination of movement in equity attributable to the minorities since the date of acquisition of the subsidiary.

While doing the audit of consolidated Financial Statements, current period consolidation adjustments should be taken into account. The auditor should review the memorandum records to verify the adjustment entries made in the preparation of consolidated financial statements. This would also help the auditor in ascertaining whether there is any difference in the elimination. Apart from reviewing the memorandum records, the auditor should:

- (a) verify that the inter-group transactions and account balances have been eliminated;
- (b) verify that the consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances;
- (c) verify that adequate disclosures have been made in the consolidated financial statements of application of different accounting policies in case, it was impracticable to do so;
- (d) verify the adjustments made to harmonise the different accounting policies; and
- (e) verify that the calculation of minorities interest has been correctly done.