

CONSOLIDATED FINANCIAL STATEMENT

SERIES NO I63

The 2013 Act mandates

preparation of consolidated financial statements (CFS) by all Companies, including unlisted Companies, having one or more subsidiaries, joint ventures or associates. Previously, the Securities and Exchange Board of India (SEBI) required only listed Companies to prepare CFS. Mandating preparation of CFS is a step in the right direction to align the reporting requirements to the international reporting practices, since standalone financial statements do not present a true picture from an economic entity perspective.



Consolidated financial statements normally include consolidated balance Sheet, Consolidated statement of profit and loss, and notes, explanatory material that form an integral part thereof, and also consolidated cash flow statement (in case a parent present its own cash flow statement). Consolidated financial statements are presented, to the extent possible, in the same format as adopted by the parent for its separate financial statement.

Consolidation of Holding, Subsidiary & Associate Company Accounts

FAQ'S RELATING TO CONSOLIDATION ARE GIVEN AT THE END OF THE ARTICLE

OBJECTIVE OF CFS:

A Move to Greater Transparency, The Government of India, in its endeavor to enforce and raise compliance standards, has legislated the Companies Act, 2013, the much required code for corporates in India in line with the developments taking place worldwide and in order to meet the growing demands of stakeholders towards greater transparency and ease of understanding.

The Concept of CFS was brought with an objective of achieving the true and fair view of reporting the position of the company for the financial year, since the consolidated financial

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Statements are generally considered as the primary financial statements from an economic entity perspective, whereas the standalone Financial Statements projects only the position of the company in its individual performance and it does not provide the true and fair view to the shareholders about the overall performance of the company with its subsidiaries.

KEY COMPLIANCE REQUIREMENTS:

- CFS is to be prepared and laid before an AGM, in addition to SFS. Audited accounts of the listed companies, along with those of the subsidiaries, have to be made available on the website.
- Audited accounts of all of the subsidiaries are required to be prepared and provided to shareholders on request

REQUIREMENT OF CONSOLIDATION OF FINANCIAL STATEMENT:

Section 129 sub section 3 states that ‘Where a company has one or more subsidiaries, it shall, in addition to [financial statements](#) provided under sub-section (2), prepare a consolidated financial statement of the company and of all the subsidiaries in the same form and manner as that of its own which shall also be laid before the annual general meeting of the company along with the laying of its financial statement under sub-section (2)’.

EXPLANATION: — for the purposes of this sub-section, the word “subsidiary” shall include Associate Company and Joint Venture.

Financial Statement: As per section 2 clause 40

“Financial Statement” in relation to a company, includes—

- a) A balance sheet as at the end of the financial year;
- b) A profit and loss account, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year;
- c) cash flow statement for the financial year;
- d) A statement of changes in equity, if applicable; and
- e) Any explanatory note annexed to, or forming part of, any document referred to in sub-clause (i) to sub-clause (iv):

Associate Company:

“Associate Company”, in relation to another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company.

“Significant Influence” means control of at least twenty per cent. of total share capital, or of business decisions under an agreement.

Companies which have to consolidate its Financial Statement:

- Where a Company have one or more subsidiary (ies).
- Where a Company have Associate Company (ies).
- Where a Company have Joint Venture(s).
- Where a Company have Foreign Subsidiary (ies)
- Where a Company have wholly owned subsidiary.
- Where a Company have Subsidiaries, Associates and joint ventures all.

APPLICABILITY OF PROVISION OF COMPANIES ACT, 2013

Manner of Preparation of CSF: As stated in Section 129 (4) the provisions of this Act applicable to the preparation, adoption and audit of the financial statements of a holding company shall, mutatis mutandis, apply to the consolidated financial statements of the Company. The consolidation of financial statements of the company shall be made in accordance with the provisions of Schedule III of the Act and the applicable accounting standards (i.e. AS 21- Consolidated Financial Statements, AS 23-Accounting for Investments in Associates in Consolidated Financial Statements& AS 27-Financial Reporting of Interests in Joint Ventures).

Presentation of Notes in CSF:

As per MCA General Circular No. 39/2014 dated 14th October, 2014 Government has received representations from stakeholders seeking clarifications on the manner of presentation of notes in Consolidated Financial Statement (CFS) to be prepared under Schedule III to the Companies Act, 2013(Act). These representations have been examined in consultation with the Institute of Chartered Accountants of India (ICAI) and it is clarified that Schedule III to the Act read with the applicable Accounting Standards does not envisage that a company while preparing its CFS merely repeats the disclosures made by

it under stand-alone accounts being consolidated. In the CFS, the company would need to give all disclosures relevant for CFS only.

It is clear from the above mentioned circular that there is no need to repeat the disclosures relates to only stand alone account of the Company. The would need to give all the disclosures relevant for CSF Only.

Accounting Standard:

In case of a company covered under sub-section (3) of section 129 which is not required to prepare consolidated financial statements under the Accounting Standards, it shall be sufficient if the company complies with provisions on consolidated financial statements provided in Schedule III of the Act.

According to Companies (Accounts) Rules, 2014 the consolidation of financial statements of the Company shall be made in accordance with the provision of schedule III to the Act and the applicable accounting standards. However, a Company which is not required to prepare consolidated financial statements under the accounting standards, it shall be sufficient if the Company complies with provisions on consolidated financial statements provided in schedule III of the Act.

Other:

The Consolidated financial statements shall also be approved by the Board of Directors before they are signed on behalf of the board, along with its own financial statements and shall also be laid before the annual general meeting of the Company along with the laying of its own financial statement.

EFFECTIVE DATE OF APPLICABILITY:

From Financial Year: 01.04.2014-31.03.2015

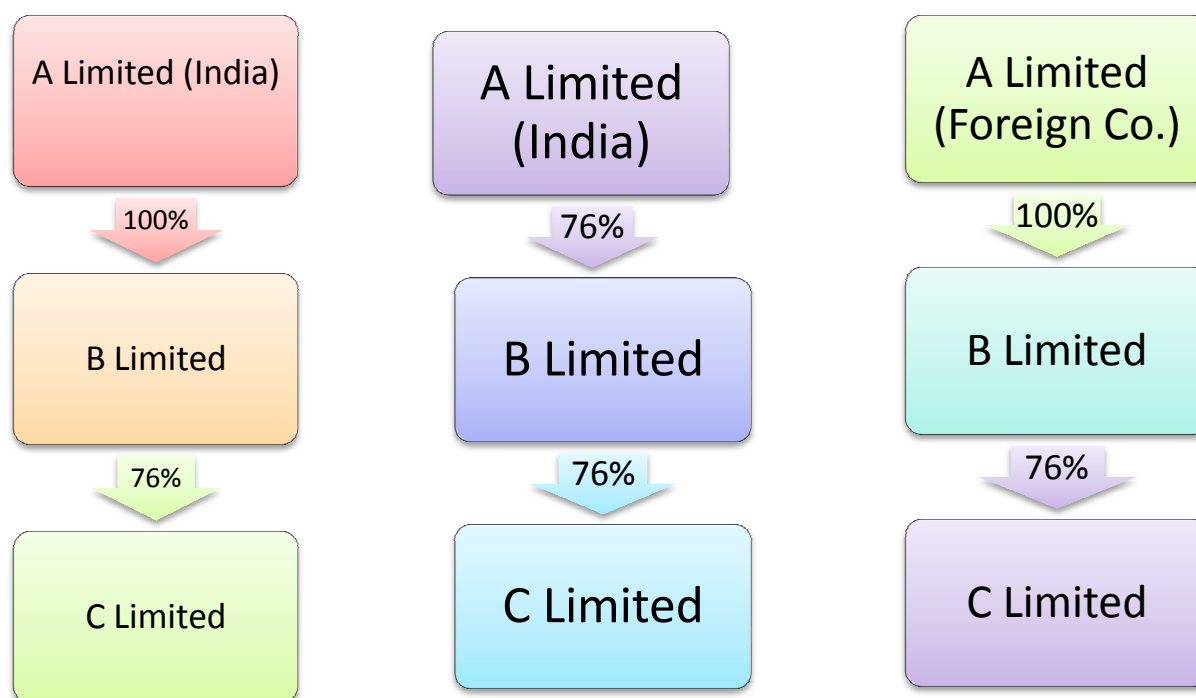
The provision of this section applicable on all the Companies w.e.f. 01st April, 2014. Every Company which falls under Section 129(3) requires preparing consolidated financial statement along with stand alone statement for the financial year commencing from 1st day of April, 2014 and ending on 31st March, 2015.

Exceptions:

As there were no transitional provisions for the Company preparing CSF for the First time therefore exemption was given to below mentioned companies from preparation of consolidation financial statement for the financial year commencing from 1st day of April, 2014 and ending on 31st March, 2015.

- i. A company having subsidiary or subsidiaries incorporated outside India only.
- ii. ¹In case of a company which does not have a subsidiary or subsidiaries but has one or more associate companies or joint ventures or both ⁹ for the consolidation of financial statement in respect of associate companies or joint ventures or both, as the case may be.)
- iii. An intermediate wholly-owned subsidiary Company incorporated in India would not be required to prepare CFS. The requirements, however, remain unchanged for those intermediate wholly-owned subsidiary Companies whose immediate parent is a Company incorporated outside India.

Example on Point no III



¹ A company having no subsidiaries but only having associate company (ies) and/or joint venture(s) is exempted from consolidation of financial statement in respect of associate company (ies) and/or joint venture(s) for the financial year commencing on or after 01.04.2014 and ending before 31.03.2015.

Only A will prepare CFS.

A & B will prepare CFS.

B will prepare CFS.

FAQ's

Who will prepare the Consolidated Financial Statement?

As stated in Section 129 It is duty of the Parent Company (Management) to prepare the consolidated financial statement of the company and laid the same before the Annual General Meeting along with Stand alone financial statement.

What are the provisions in relation to audit of the consolidated Financial Statement of the Company?

As stated in Section 129 the provisions of this Act relating to audit applicable on holding company shall, mutatis mutandis, apply to the consolidated financial statements of the Company. Therefore, all the provision of Audit applicable to stand alone financial statement will be applicable on audit of consolidated financial statements.

In determining control, whether potential equity shares (eg option, convertible bonds, debentures etc) need to be considered?

The potential equity shares of the investee held by the investor should not be taken into account for determining the voting power of investor.

Who will audit the consolidated Financial Statement of the Company?

There could be two situations in an audit of consolidated financial statements- when the parent's auditor is also the auditor of all the components to be included in the consolidated financial statements and when the parent's auditor is not the auditor of one or more subsidiaries and therefore uses the work of other auditor in the audit.

The Auditor of the consolidated financial statements may not necessarily be the auditor of the separate financial statements of the parent or one or more of the components included in the consolidated financial statement.

If a Company have more than one Subsidiary then whether both the Parent Company will consolidate the account of Subsidiary?

A Company can be subsidiary of two Companies. If more than 50% of paid up share capital is held by one Company and another Company controls the composition of Board of Directors.

In such cases, both parents to consolidate the same subsidiary

If Company (A) is subsidiary of another Company (B) on 29.03.2014 but not the subsidiary as on 31.03.2015 whether for the financial year ended 31.03.2015 Company (B) consolidate the account of Company (A)?

For the purpose of consolidation of financial statement relation of holding and subsidiary will be considered as on 31.03.2015. In the above situation A is not subsidiary on 31.03.2015 therefore there is no need to prepare consolidated financial statement.

Whether need to consolidate account of LLP?

First Situation: LLP as Joint Venture:

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control.

If a Company enters into a joint venture agreement with a LLP in which Company controls more than 20% of business decision. Such Joint venture LLP shall be considered as associate as per definition of Section 2(6) of CA, 2013.

As a joint venture or associate there is need to consolidate the accounts of such LLP with the Company.

Second Situation: LLP as Subsidiary:

- As per clause 87 of section 2 of CA, 2013 “subsidiary company” or “subsidiary”, in relation to any other company (that is to say the holding company), means a company in which the holding company exercises or controls more than one-half of the total share capital either at its own or together with one or more of its subsidiary companies.
- As per explanation of this definition: the expression “company” includes anybody corporate.
- As per section 3 of LLP Act, LLP is Body Corporate.

Therefore, LLP as a Body Corporate falls under the definition of Subsidiary. Therefore, Company required consolidating the accounts of LLP.



²(i) Whether a company H Ltd is required to consolidate its subsidiary which is a Limited Liability Partnership (LLP) or a partnership firm?

(ii) Would the answer be different if LLP is an associate or joint venture of H Ltd?

(i) As per rule 6 of Companies (Accounts) Rules, 2014, under the heading 'Manner of consolidation of accounts' it is provided that consolidation of financial statements of a company shall be done in accordance with the provisions of Schedule III to the Companies Act, 2013 and the applicable Accounting Standards.

It is noted that relevant Indian Accounting Standard i.e., Ind AS 110, *Consolidated Financial Statements* provides that where an entity has control on one or more other entities, the controlling entity is required to consolidate all the controlled entities. Since, the word 'entity' includes a company as well as any other form of entity, therefore, LLPs and partnership firms are required to be consolidated. Similarly, under Accounting Standard (AS) 21, as per the definition of subsidiary, an enterprise controlled by the parent is required to be consolidated. The term 'enterprise' includes a company and any enterprise other than a company. Therefore, under AS also, LLPs and partnership firms are required to be consolidated.

Accordingly, in the given case, H Ltd is required to consolidate its subsidiary which is an LLP or a partnership firm.

(ii) If LLP or a partnership firm is an associate or joint venture of H Ltd, even then the LLP and the partnership firm need to be consolidated in accordance with the requirements of applicable Accounting Standards.

If Company A holds 35% Equity Shares and 75% preference share capital of Company B, then Whether Company B shall be Subsidiary of Company A?

Definition of Subsidiary: "subsidiary company" or "subsidiary", in relation to any other company (that is to say the holding company), means a company in which the holding company exercises or controls more than one-half of the total share capital either at its own or together with one or more of its subsidiary companies.

² Clarification by ICAI.



As per Definition holding will be determine on the basis of total share capital (equity + preference). According to this Company B will be consider as subsidiary of Company A and because of holding of 75% of preference share capital Company A required to prepare the consolidate financial statement including Company B.

What is the time period for filing of CSF with the ROC?

As stated in section 137(1) A copy of the financial statements, including consolidated financial statement, if any, along with all the documents which are required to be or attached to such financial statements under this Act, duly adopted at the annual general meeting of the company, shall be filed with the Registrar within thirty days of the date of annual general meeting.

A Company H ltd has no subsidiaries, but has investment in an associate and a joint venture. Whether H Ltd. is required to prepare consolidated financial statements for the year ending March 31, 2016, in the context of Companies (Accounting Standards) Rules, 2006.

Section 129 (3) of the Companies Act, 2013 provides that where a company has one or more subsidiaries, it shall prepare a consolidated financial statement of the company and of all the subsidiaries. Further, an Explanation to this sub section provides that the word “subsidiary” shall include associate company and joint venture.

In view of the above, in the given case, though H ltd does not have any subsidiary, it is required to prepare consolidated financial statements for its associate and joint venture in accordance with the applicable Accounting Standards, viz, AS 23, Accounting for Investments in Associates in Consolidated Financial Statements and AS 27, Financial Reporting of Interests in Joint Ventures, respectively.

SOME PRACTICAL QUESTIONS:-

- 1) D has 3 wholly-owned subsidiary who hold 30% each in P, but D has no holding in P. How should P be consolidated?

D exercise control over more than 50% of total voting power of P, indirectly through D's wholly-owned subsidiaries. Therefore, irrespective of whether or not A exercises any direct control over the operations of P, D would have to consolidate P directly as a subsidiary, in preparing its CFS.



- 2) A Limited is controlled by two enterprises; one control by virtue of ownership of majority of the voting power and the other controls, by virtue of an agreement, the composition of the Board of directors so as to obtain economic benefits from its activities. Who should consolidate the accounts of A Limited?

In such rare cases, both the controlling enterprises should consolidate the financial statements of A Limited. Because A limited is subsidiary Company of both the controlling enterprises.

- 3) If Company A holds 50% shares of Company B. One another shareholder of Company B grants a power of attorney to Company A for exercising voting power on his behalf at AGM. Whether Company A required consolidating financial statement of Company B.

No, the power of attorney doesn't result in Company A controlling the ownership, directly or indirectly through subsidiary (ies).

- 4) If P is holding 60% in Q and Q is holding 60% in R and R is holding 25% in S then whether P and Q will consolidate the accounts of S.

As per Act R will consolidate account of S, Q will consolidate the accounts of R (which already include S) and P will consolidate accounts of Q (which already include Q,R,S). I am in favour that one has to look at the group as one entity, since group is consolidated, S should be consolidate.

- 5) A has an 90% interest in subsidiary B. A holds direct interest of 25% of C and B holds a 30% interest in entity C. All shares have equal voting rights. Is company C a subsidiary or an associate Company of A.

Company C is subsidiary of Company A. Company A controls entity B and therefore, it controls $(90\% \times 30) = 27\%$ voting power that B hold over C. in addition, A itself has a 25% direct interest and relating voting power, in entity C. Entity A's total voting power in C is $(25\% + 27\% = 52\%)$. Company A controls C and should therefore consolidate C as a Subsidiary.

EFFECTIVE OF COMPANIES BILL, 2016 ON CONSOLIDATION OF ACCOUNTS:

I. Effect of Change in Definition of Subsidiary Company:

Definition of Subsidiary: "subsidiary company" or "subsidiary", in relation to any other company (that is to say the holding company), means a company in which the holding

company exercises or controls more than one-half of the total share capital either at its own or together with one or more of its subsidiary companies.

Bill: The Bill recommended that the term “Total Share Capital” be replaced with the term ‘Total Voting Power’, as equity share capital should be the basis for determining holding/subsidiary status.

Effect: This would also prevent the occurrence of such a situation in which a preference shareholder becomes the holding company under the Act, however, during consolidation, the equity shareholder would show it as its subsidiary in its books of accounts.

II. Effect of Change in Section 129(3):

Language of Section: Where a company has one or more subsidiaries, it shall, in addition to financial statements provided under sub-section (2), prepare a consolidated financial statement of the company. *Explanation.*—for the purposes of this sub-section, the word “subsidiary” shall include associate company and joint venture.

Bill- The following shall be substituted: Where a company has one or more subsidiaries or associate companies, it shall, in addition to financial statements provided under sub-section (2), prepare a consolidated financial statement of the company

Effect: According to the substitution joint ventures will be excluding from the ambit of subsidiary for the purpose of consolidation of accounts. But it will not effect that much because joint venture are still include in the associate Company.

III. Effect of Change in Section 134(1) (Signing of Financial Statement):

Language of Section: The financial statement, including consolidated financial statement, if any, shall be approved by the Board of Directors before they are signed on behalf of the Board at least by the chairperson of the company where he is authorized by the Board or by two directors out of which one shall be managing director and the Chief Executive Officer, if he is a director in the company, the Chief Financial Officer and the company secretary of the company, wherever they are appointed, or in the case of a One Person Company, only by one director, for submission to the auditor for his report thereon

Bill- The following shall be substituted: The financial statement, including consolidated financial statement, if any, shall be approved by the Board of Directors before they are signed on behalf of the Board ~~at least~~ by the chairperson of the company where he is authorized by the Board or by two directors out of which one shall be managing director, ~~if any~~, and the Chief Executive Officer, ~~if he is a director in the company~~, the Chief Financial Officer and the company secretary of the company, wherever they are appointed,

Effect: As per the Bill, 2016, the CEO shall sign the financial statements including the Consolidated Financial Statements irrespective of the fact whether such CEO is also a director or not.

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