



Consolidated financial statements

What the Companies Act 2013 states	EY insights
<p>Section 129(3) of the 2013 Act requires that a company having one or more subsidiaries will, in addition to separate financial statements, prepare CFS. Hence, the 2013 Act requires all companies, including non-listed and private companies, having subsidiaries to prepare CFS.</p> <p>The 2013 Act also provides the below:</p> <ul style="list-style-type: none"> ▶ CFS will be prepared in the same form and manner as SFS of the parent company. ▶ The Central Government may provide for the consolidation of accounts of companies in such manner as may be prescribed. ▶ The requirements concerning preparation, adoption and audit of financial statements will, mutatis mutandis, apply to CFS. ▶ An explanation to section dealing with preparation of CFS states that “for the purposes of this sub-section, the word subsidiary includes associate company and joint venture.” <p>While there is no change in section 129(3), rule 6 under the Companies (Accounts) Rules 2014 deals with the “Manner of consolidation of accounts.” It states that the consolidation of financial statements of a company will be done in accordance with the provisions of Schedule III to the Act and the applicable accounting standards. The proviso to this rule states as below:</p> <ul style="list-style-type: none"> ▶ “Provided that 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.” <p>Given below is an overview of key requirements under the Schedule III concerning CFS:</p> <ul style="list-style-type: none"> ▶ Where a company is required to prepare CFS, it will mutatis mutandis follow the requirements of this Schedule as applicable to a company in the preparation of balance sheet and 	<p>AS 21 does not mandate a company to present CFS. Rather, it merely states that if a company presents CFS for complying with the requirements of any statute or otherwise, it should prepare and present CFS in accordance with AS 21. Keeping this in view and proviso to the rule 6, can a company having subsidiary take a view that it need not prepare CFS?</p> <p>This question is not relevant to listed companies, since the listing agreement requires listed companies with subsidiaries to prepare CFS. This question is therefore relevant from the perspective of a non-listed company.</p> <p>Some argue that because neither AS 21 nor Schedule III mandates preparation of CFS, the Accounts Rules have the effect of not requiring a CFS. Instead, a company should present statement containing information, such as share inprofit/loss and net assets of each subsidiary, associate and joint ventures, as additional information in the Annual Report. Inthis view, the Accounts Rules would override the 2013 Act. If it was indeed the intention not to require CFS, then it appears inconsistent with the requirement to present a statement containing information such as share in profit/loss and net assets of each of the component in the group.</p> <p>Others argue that the requirement to prepare CFS is arising from the 2013 Act and the Accounts Rules/ accounting standards cannot override/ change that requirement. To support this view, it is also being argued that the Accounts Rules refer to AS 21 for the requirement concerning preparation of CFS and AS 21, in turn, refers to the governing law which happens to be the 2013 Act. Hence, the Accounts Rules/ AS 21 also mandate preparation of CFS. According to the supporters of this view, the proviso given in the Accounts Rules deals with specific exemptions in AS 21 from consolidating certain subsidiaries which operate under severe long-term restrictions or are acquired and held exclusively with a view to its subsequent disposal in the near future. If this was indeed the intention, then the proviso appears to be poorly drafted, because the exemption should not have been for preparing CFS, but for excluding certain subsidiaries in the CFS.</p>



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statement of profit and loss.

- ▶ In CFS, the following will be disclosed by way of additional information:
 - ▶ In respect of each subsidiary, associate and joint venture, % of net assets as % of consolidated net assets.
 - ▶ In respect of each subsidiary, associate and joint venture, % share in profit or loss as % of consolidated profit or loss. Disclosures at (i) and (ii) are further sub-categorized into Indian and foreign subsidiaries, associates and joint ventures.
 - ▶ For minority interest in all subsidiaries, % of net assets and % share as in profit or loss as % of consolidated net assets and consolidated profit or loss, separately.
- ▶ All subsidiaries, associates and joint ventures (both Indian or foreign) will be covered under CFS.
- ▶ A company will disclose list of subsidiaries, associates or joint ventures which have not been consolidated along with the reasons of non-consolidation.

In our view, this is an area where the MCA/ ICAI need to provide guidance/ clarification. Until such guidance/ clarifications are provided, our preferred approach is to read the “proviso” mentioned above in a manner that the Accounts Rules do not override the 2013 Act. Hence, our preference is to apply the second view, i.e., all companies (listed and non-listed) having one or more subsidiary need to prepare CFS.

IFRS exempts non-listed intermediate holding companies from preparing CFS if certain conditions are fulfilled. Is there any such exemption under the 2013 Act read with the Accounts Rules?

Attention is invited to discussion on the previous issue regarding need to prepare CFS. As mentioned earlier, our preferred view is that all companies having one or more subsidiary need to prepare CFS. Under this view, there is no exemption for non-listed intermediate holding companies from preparing CFS. Hence, all companies having one or more subsidiaries need to prepare CFS.

Currently, the listing agreement permits companies to prepare and submit consolidated financial results/financial statements in compliance with IFRS as issued by the IASB. For a company taking this option, there is no requirement to prepare CFS under Indian GAAP. Will this position continue under the 2013 Act?

Attention is invited to discussion on the earlier issue regarding the requirement to prepare CFS. As mentioned earlier, our preferred view is that CFS is required for all companies having one or more subsidiary. The Accounts Rules are clear that consolidation of financial statements will be done in accordance with the provisions of Schedule III to the 2013 Act and the applicable accounting standards. Hence, companies will have to mandatorily prepare Indian GAAP CFS, and may choose either to continue preparing IFRS CFS as additional information or discontinue preparing them.

The ICAI has recently proposed a new roadmap for implementation of Ind-AS in India and submitted it to the MCA for its consideration. In accordance with the roadmap, companies meeting the criteria below will prepare their CFS in accordance with Ind-AS from accounting period beginning on or after 1 April 2016. Comparatives for the year ending 31 March 2016 will also be in accordance with Ind-AS.

- ▶ Companies whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or



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- ▶ outside India
- ▶ Companies other than those covered in (a) above, having net worth of ₹ 500 crore or more
- ▶ Holding, subsidiary, joint venture or associate companies of companies covered under (a) or (b) above

We recommend that the MCA should re-examine this issue and allow companies to voluntarily prepare CFS under IASB IFRS instead of Indian GAAP. More than 100 countries around the world use IFRS, which is now effectively a gold standard. Therefore, it may be inappropriate to not accept IFRS CFS. We also recommend that when Ind-AS are notified for preparing CFS, they should be notified with no or very few changes from the IASB IFRS.

An explanation to section 129(3) of the 2013 Act states that “for the purpose of this sub-section, the word subsidiary includes associate company and joint venture.” The meaning of this explanation is not clear. Does it mean that a company will need to prepare CFS even if it does not have any subsidiary but has an associate or joint venture?

The following two views seem possible on this matter:

- ▶ One view is that under the notified AS, the application of equity method/proportionate consolidation to associate/ joint ventures is required only when a company has subsidiaries and prepares CFS. Moreover, the Accounts Rules clarify that CFS need to be prepared as per applicable accounting standards. Hence, the proponents of this view argue that a company is not required to prepare CFS if it does not have a subsidiary but has an associate or a joint venture.
- ▶ The second view is that the above explanation requires associates/joint ventures to be treated at par with subsidiary for deciding whether CFS needs to be prepared. Moreover, the 2013 Act decides the need to prepare CFS and the Accounts Rules are relevant only for the manner of consolidating entities identified as subsidiaries, associates and joint ventures. Hence, CFS is prepared when the company has an associate or joint venture, even though it does not have any subsidiary. The associate and joint venture are accounted for using the equity/proportionate consolidation method in the CFS.

We understand that the MCA/ICAI may provide an appropriate guidance on this issue in the due course. Until such guidance is provided, from our perspective, the second view appears to be more logical reading of



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the explanation. Hence, our preference is to apply the second view.

Section 129(4) read with Schedule III to the 2013 Act suggests that disclosure requirements of Schedule III mutatis mutandis apply in the preparation of CFS. In contrast, explanation to paragraph 6 of AS 21 exempts disclosure of statutory information in the CFS. Will this exemption continue under the 2013 Act?

A company will need to give all disclosures required by Schedule III to the 2013 Act, including statutory information, in the CFS. To support this view, it may be argued that AS21 (explanation to paragraph 6) had given exemption from disclosure of statutory information because the 1956 Act did not require CFS. With the enactment of the 2013 Act, this position has changed. Also, the exemption in AS 21 is optional and therefore this should not be seen as a conflict between AS21 and Schedule III. In other words, the statutory information required by Schedule III for SFS will also apply to CFS.

The disclosures given in the CFS will include information for parent, all subsidiaries (including foreign subsidiaries) and proportionate share for joint ventures. For associates accounted for using equity method, disclosures will not apply. This ensures consistency with the manner in which investments in subsidiaries, joint ventures and associates are treated in CFS.

Some practical challenges are likely to arise in implementing the above requirement. For example,

- ▶ It is not clear as to how a company will give disclosures such as import, export, earnings and expenditure in foreign currency, for foreign subsidiaries and joint ventures. Let us assume that an Indian company has US subsidiary that buys and sells goods in USD. From CFS perspective, should the purchase/sale in US be treated as import/export of goods? Should such purchase/sale be presented as foreign currency earning/expenditure?
- ▶ How should a company deal with intra-group foreign currency denominated transactions which may get eliminated on consolidation? Let us assume that there are sale/purchase transactions between the Indian parent and its overseas subsidiaries, which get eliminated on consolidation. Will these transactions require disclosure as export/import in the CFS?

ICAI should provide appropriate guidance on such



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practical issues. Until such guidance is provided, differing views are possible. One view is that the MCA has mandated these disclosures to present information regarding imports/exports made and foreign currency earned/spent by Indian companies. To meet disclosure objective, CFS should contain disclosures such as import, export, earnings and expenditure in foreign currency for the parent plus Indian subsidiaries (100% share) and Indian joint ventures (proportionate share). These disclosures may be omitted for foreign subsidiaries and joint ventures. Since disclosures for foreign operations are not being given, there may not be any intra-group elimination.

The second view is that Schedule III has mandated specific disclosures and one should look at disclosures required and ensure compliance. Hence, for each subsidiary and joint venture, import, export, earnings and expenditure in foreign currency is identified based on its domicile country and reporting currency. To illustrate, for a US subsidiary having USD reporting currency, any sale and purchase outside US is treated as export and import, respectively. Similarly, any income/ expenditure in non-USD currency is foreign currency income/ expenditure. Under this view, intra-group transactions may either be eliminated or included in both import and export.

In the absence of specific guidance/clarification, we believe that first view is the preferred approach. To explain the approach adopted, we recommend that an appropriate note is given in the financial statements.

Assume that the 2013 Act requires even non-listed and private groups to prepare CFS. Under this assumption, the following two issues need to be considered:

- ▶ **The date from which the requirement concerning preparation of CFS will apply. Particularly, is it mandatory for non-listed/private groups to prepare CFS for the year- ended 31 March 2014?**
- ▶ **Whether the comparative numbers need to be given in the first set of CFS presented by an existing group?**
- ▶ Basis the General Circular no. 8/2014 dated 4 April 2014, non-listed/private groups need to prepare CFS from financial years beginning on or after 1 April 2014.
- ▶ Regarding the second issue, Schedule III states that except for the first financial statements prepared by a company after incorporation, presentation of comparative amounts is mandatory. In contrast, transitional provisions to AS 21 exempt



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	<p>presentation of comparative numbers in the first set of CFS prepared even by an existing group.</p> <p>One may argue that there is no conflict between transitional provisions of AS 21 and Schedule III. Rather, AS 21 gives an exemption which is not allowed under the Schedule III. Hence, presentation of comparative numbers is mandatory in the first set of CFS prepared by an existing company.</p>
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