Practical Guide to Consolidation of Accounts

"The more you learn, you learn that you still have lot to learn"

Did you know?

- Before Companies Act 2013, only listed company was required to do Consolidation. AS 21 says that if a company is required to do consolidation then consolidation is required to be done as per criteria set up in AS 21.

- Earlier only listed companies was required to do consolidation as listing agreement required the same but with companies act 2013, sec 129 has defines financial statement to include CFS.
Consolidation requirement under Companies Act, 2013 (Act, 2013)

Section 129 (3) read with Rule 6 of the Companies (Accounts) Rules, 2014 (Rules) provides manner of consolidation of financial statements of subsidiaries pursuant to Schedule III of the Act, 2013 and the applicable Accounting Standards.

As per AS 21, Consolidated Financial Statement (CFS) is required to be prepared only for a 'group' of enterprises under the control of a parent.

As per the scope of AS-23 and AS-27 the application of equity method/proportionate method for consolidation of accounts of associate/joint ventures respectively is required only when a company prepares consolidation under AS 21

The term 'group' has been defined in AS 21 as follows:
A group is a parent and all its subsidiaries.

The explanation to Section 129 (3) clearly states that for the purposes of this sub-section, the word subsidiary shall include associate company and joint venture.

Therefore, as per Section 129 of the Act, 2013 read with rules thereof, consolidation of financial statement is required in case a company is having subsidiary or associate or joint-venture company.

There is another view which believes that CFS is not required if there is no subsidiary as Sec 129 requires consolidation to be done as per AS 21, but as per our view the applicability of CFS is governed by Sec 129 and not AS 21, AS 21 only prescribes the method once CFS is required to be done under any statute.

In this regard, MCA had come with notification no. G.S.R 723 (E) dated October 14, 2014 and introduced the Companies (Accounts) Amendment Rules, 2014. As per the rule the consolidation requirement was exempted for a company not having subsidiaries but having associates or joint ventures (JVs). However, the said exemption was only for the financial year 2014-15. Accordingly, such companies come within the purview of consolidation from FY 15-16 onwards.

AS 21: Consolidation of Accounts
Definition & Scope

- Preparation and presentation of Consolidated Financial Statements for a group of enterprises under the control of a parent.
- Accounting for investment in subsidiaries in the separate financial statement of a parent.

Definition of Control

When one entity:

Directly or indirectly through subsidiary, owns more than 50% of the voting power. OR

Has power to control the composition of Board of Directors of another company for economic benefits.

Minority Interest

- It is that part of the net results of operations and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiary(ies), by the parent.

- In other words, it is that portion of results and net assets which are not owned by the Holding Company

Consolidation Procedure: Minority Interest Computation

Minority interests in the net income of consolidated subsidiaries for the reporting period should be identified and adjusted against the income of the group in order to arrive at the net income attributable to the owners of the parent; and

Minority interests in the net assets of consolidated subsidiaries should be identified and presented in the consolidated balance sheet separately from liabilities and the equity of the parent’s shareholders.
Example
Suppose company B is having Net worth of Rs 10 lac, company A purchases 75% of share of company B, then remaining 25% i.e. Rs 2.5 lac becomes minority interest.

Presentation as per Schedule III
The CFS prepared in the same format as that of Separate Financial Statements, i.e, Schedule III of Companies Act 2013

Exclusion of Subsidiaries from Consolidation
The Holding Company shall consolidate the financial statements of all the subsidiaries, domestic or foreign other than:

Temporary Investment - When the shares are held in subsidiary company for disposal in near future.

Severe Restriction - Where there are long term restrictions on fund transfer from subsidiary to parent Company

Different financial year of Subsidiary
It will prepare an additional set of financial statement in accordance with financial year of holding

Consolidation Procedure: Goodwill Computation

At the date of acquisition
Any excess of the cost to the parent of its investment in a subsidiary over the parent’s portion of equity of the subsidiary, at the date on which investment in the subsidiary is made, should be described as goodwill to be recognised as an asset in the consolidated financial statements

Cost to parent > Parent’s portion of Equity = Goodwill

When the cost to the parent of its investment in a subsidiary is less than the parent’s portion of equity of the subsidiary, at the date on which investment in the subsidiary is made, the difference should be treated as a capital reserve in the consolidated financial statements

Cost to parent < Parent’s portion of Equity = Capital Reserve

Consolidation Procedure: BS & P&L Consolidation


All assets, liabilities, income and expenses should be consolidated on line by line basis.

**Line by line basis** combine assets, liabilities, income and expenses

**Intra-group transactions and balances**

- Profits and losses on transactions between group members should be eliminated
- Profits which are reflected in the value of assets to be included in the consolidation should be eliminated

**Uniformity of accounting policies**

- Uniform accounting policies should be used for all entities included in the consolidation for like transactions and other events in similar circumstances
- If there is mid-year acquisition then the mid-year financial statement as on date of acquisition is required for partial consolidation after acquisition.

**Sale of Subsidiary**

- Consolidation process to be followed till the date parent subsidiary relationship ceases to exist
- Recognition of difference between sale proceeds and Equity on the date of disposal in the consolidated profit and loss account and Capital Reserve / Goodwill to be reversed

**Disclosures**
• List of all subsidiaries including name, country of incorporation, proportion of ownership interest and, if different, the proportion of voting power held
• **Under the Companies Act, 2013:** To comply with Instructions given for preparation of balance sheet and statement of profit and loss in Schedule III
• Entity-wise amount of net-assets and % of the same w.r.t. consolidated net assets
• Entity-wise amount of share in profit & loss and % of the same w.r.t. consolidated profit & loss
• The above details to be further bifurcated into parent, subsidiary, joint venture and also into Indian and Foreign
• Effect of acquisition and disposal of subsidiaries on the financial position at the reporting date, the results for the reporting period and on the corresponding amounts for the preceding period
• Names of the subsidiaries of which the reporting dates are different from that of the parent and the difference in reporting dates
• Nature of relationship between parent and subsidiary, if parent does not own one-half of the voting power

**AS-23 Accounting for Investment of Associates in CFS**

Significant influence may be exercised in several ways:

• Representation on the Board of directors
• Participation in policy making process
• Material intercompany transactions
• Interchange of managerial personnel
• Share ownership - 20 % or more

**Consolidation method- Equity method**

• Under the Equity Method - investment is initially recorded at cost, identifying any goodwill / capital reserve arising at the time of acquisition and
• the carrying amount is increased or decreased to recognise the investor’s share of the profits or losses of the investee after the date of acquisition
• Elimination of unrealised profit / loss to the extent of investor’s interest Exclusion from CFS / Cessation.

**Adjustments of carrying amount**
Adjustments to the carrying amount of investment in an associate arising from changes in the associate's equity that have not been included in the statement of profit or loss should be directly adjusted in the carrying amount of investment without routing it through the consolidated statement of profit and loss. The corresponding debit/credit should be made in the relevant head of the equity interest in the consolidated balance sheet.

**AS-27 Financial Reporting of Interests in Joint Ventures**

- A jointly controlled entity is a joint venture which involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other enterprises, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.
- A jointly controlled entity maintains its own accounting records and prepares and presents financial statements in the same way as other enterprises in conformity with the requirements applicable to that jointly controlled entity.
- Joint control is the contractually agreed sharing of control over an economic activity.
- Control is the power to govern the financial and operating policies of an economic activity so as to obtain benefits from it.
- Accounting of partnership firm/AOP in separate and consolidated financial statements.
- Proportionate Consolidation is a method of accounting and reporting whereby a venturer's share of each of the assets, liabilities, income and expenses of a jointly controlled entity is reported as separate line items in the venturer's financial statements.

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**Tags:** Accounts

**Recommended Read**

- Utilization of ITC: Practical Scenarios
- Founders’ Guide to Seed Funding
NISHIT GANDHI
very informative, thank u

RASIK SINGHANIA
Dear Vivek,Whats the conclusion on applicability of CFS if there is no subsidiary for FY 2015-16?

PALASH BANSAL
please provide the same in PDF format

SHARDUL
R5

PRATIK UPADHYAY
very helpful article sir

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