



Applicability – Sec 129(3)

- *Sec 129 Financial Statement*

Where a company has one or more subsidiaries, it shall 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.

Explanation.—For the purposes of this subsection, the word “subsidiary” shall include associate company and joint venture.



Q

- Is there any exemption for
 - Small Company
 - OPC
 - LLP



Definition Subsidiary

"subsidiary", in relation to any other company (that is to say the holding company), means a company in which the holding company—

- (i) controls the composition of the Board of Directors; or
- (ii) 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

Control:

(a) the ownership, directly or indirectly through subsidiary(ies), of more than one-half of the voting power of an enterprise; or
(b) control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise so as to obtain economic benefits from its activities.



Definition Associate

"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.

Explanation.—For the purposes of this clause, "significant influence" means control of at least twenty per cent. of total share capital, or of business decisions under an agreement;

An associate is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor.

Significant influence is the power to participate in the financial and or operating policy decisions of the investee but not control over those policies.



Definition Joint Venture

Associate company includes Joint Venture. No separate definition for Joint Venture

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

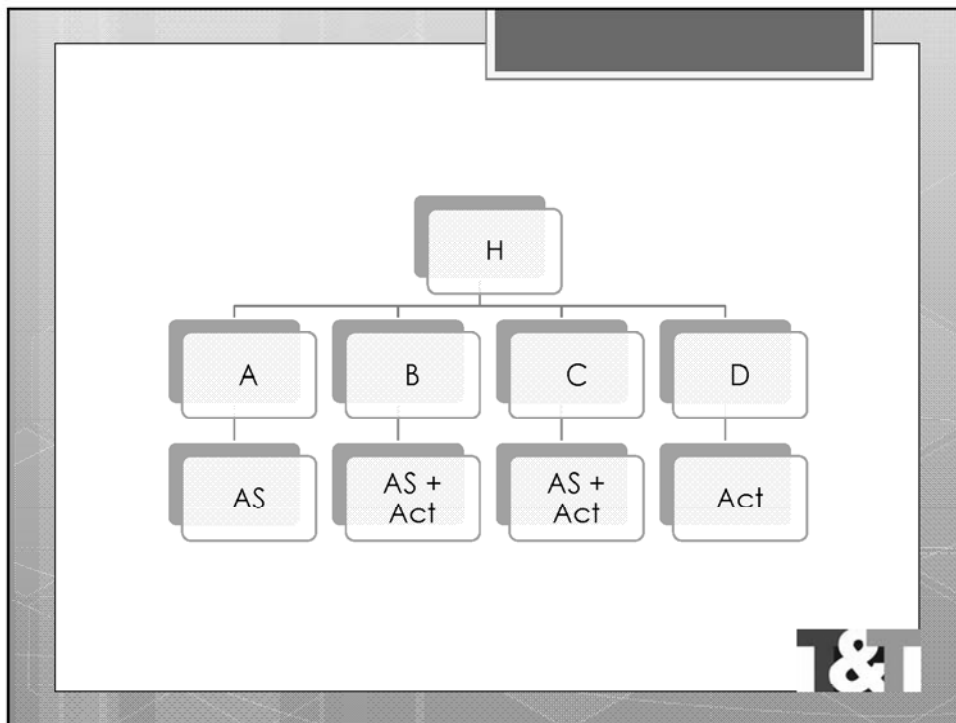
Joint control is the contractually agreed sharing of control over an economic activity.



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- Should a company identify Subsidiary, Associate and JV as per the definition of Companies Act or as per Accounting Standards?





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- A Pvt Ltd. has no subsidiary but has
 - a Joint Venture – AJV Pvt Ltd and
 - an Associate AA Pvt Ltd.
- Is A Pvt Ltd required to consolidate?

T&I

Analysis

- AS 23

It is clarified that AS 23 is mandatory if an enterprise presents consolidated financial statements.

- AS 27

This Standard is mandatory in respect of separate financial statements of an enterprise. In respect of consolidated financial statements of an enterprise, this Standard is mandatory in nature where the enterprise prepares and presents the consolidated financial statements.



Amendment in Rules - I

Provided that nothing contained in this rule shall, subject to any other law or regulation, apply for the financial year commencing from the 1st day of April, 2014 and ending on the 31 March, 2015, in case of a company which does not have a subsidiary or subsidiaries but has one or more associate companies or joint ventures or both, for the consolidation of financial statement in respect of associate companies or joint ventures or both, as the case may be.

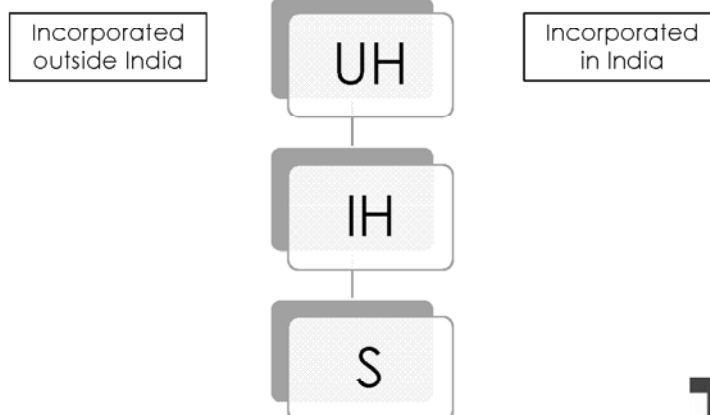


Amendment in Rules - II

- Provided that nothing in this rule shall apply in respect of preparation of consolidated financial statement by an intermediate wholly' owned subsidiary, other than a wholly-owned subsidiary whose immediate parent is a company incorporated outside India



Example



Amendment in Rules - III

- Provided that nothing in this rule shall apply in respect of consolidation of financial statement by a company having subsidiary or subsidiaries incorporated outside India only for the financial year commencing on or after 1st April, 2014.



Implementation Issues



Current accounting

- Investments (AS 13)
 - Long-term Investments
 - Carried at cost
 - Decline, other than temporary
 - Current Investments
 - Lower of Cost and Fair Value



Consolidation - Subsidiary

- Subsidiary of 2 types
 - Formed subsidiary
 - Acquired subsidiary
- Initial Accounting (**On the date of Investment**
i.e. Retrospective)
 - Calculation of Goodwill/ Capital Reserve
 - $\text{Goodwill} = \text{Cost of Investment (PC)} - \text{Share of Equity}$
 - No goodwill in case of formed subsidiary



Consolidation - Subsidiary

- Subsequent accounting
 - Line-by-line addition
 - Calculation of minority interests
 - Portion of Equity & Reserves
 - Portion of current period profit/ loss
 - Elimination of Intragroup transactions, balances and unrealised profits/ losses
 - Uniform Accounting Policies
 - Maximum gap in reporting dates: 6 months



Goodwill

- AS 21 is silent on amortisation
- AS 26 – acquired goodwill – 10 years rebuttable period
- Mixed opinions
- Tested for impairment



Case Study

- H Ltd acquired S Ltd on 1 June 2014.
- S Ltd does not have accounts prepared as on 1 June 2014.
- How should Goodwill be calculated?



Case Study

- A Ltd. has subsidiary as on 01 April 2014
- The subsidiary disposed off on 31 August 2014
- Is consolidation required on 31 March 2015?



Case Study

- H Ltd. sells its inventories (Computers) to S Ltd (Subsidiary of H) costing 30,000 for 50,000. S Ltd capitalises these computers as FA.
- Is it required to reduce the FA to 30,000 and also the depreciation on the same for preparation of CFS?



Case study

- W Company acquired an 80% interest in P Company when P's equity comprised share capital of Rs. 100,000 and retained earnings of Rs. 500,000.
- P's current statement of financial position shows share capital of Rs. 100,000, a revaluation reserve of Rs. 400,000 and retained earnings of Rs. 1,400,000.
- What figure in respect of P's retained earnings should be included in the consolidated balance sheet?
 - Rs. 1,440,000
 - Rs. 720,000
 - Rs. 1,520,000
 - Rs. 1,040,000



Case Study

- E Company acquired a 60% interest in P Company when P's equity comprised share capital of Rs. 100,000 and retained earnings of Rs. 150,000.
- P's current statement of financial position shows share capital of Rs. 100,000, a revaluation reserve of Rs. 75,000 and retained earnings of Rs. 300,000.
- What figure in respect of minority interest should be included in E's consolidated statement of financial position?
 - Rs. 150,000
 - Rs. 160,000
 - Rs. 190,000
 - Rs. 90,000



Case Study

- M Company holds a 70% interest in H Company. At the current year end M holds inventory purchased from H for Rs. 270,000 at cost plus 20%.
- The group's consolidated balance sheet has been drafted without any adjustments in relation to this holding of inventory.
- What adjustments should be made to the draft consolidated balance sheet figures for minority interest and retained earnings?

NCI

- No change
- Reduce by CU13,500
- Reduce by CU16,200
- No change

Retained Earnings

- Reduce by CU54,000
- Reduce by CU31,500
- Reduce by CU37,800
- Reduce by CU45,000



Case Study

- H Ltd has acquired 95% stake in S Ltd.
Resultant goodwill is Rs. 50 lacs
- Subsequently, S Ltd issues further equity that is being acquired by A Ltd.
- Hence, H Ltd's holding reduces to 85%.
- Should the goodwill be reduced?



Step Acquisition (15 to 60)

Date	% Investment	Amount	Net worth as on that date
01/04/2010	15	5,00,000	15,00,000
01/04/2012	45	10,00,000	20,00,000

Cost of Investment: $10,00,000 + 5,00,000 = 15,00,000$

Equity as on date of control: 20,00,000

Share of Equity (60%): 12,00,000

Goodwill: $15,00,000 - 12,00,000 = 3,00,000$



Step Acquisition (60 to 75)

Date	% Investment	Amount	Net worth as on that date
01/04/2012	60	15,00,000	20,00,000
01/04/2014	15	10,00,000	40,00,000

Goodwill as on 01/04/2012: 3,00,000
 Cost of Investment: 10,00,000
 Equity as on date of investment: 40,00,000
 Share of Addl Equity (15%): 6,00,000 (Debit to Minority Interests)
 Addl Goodwill: 10,00,000-6,00,000 = 4,00,000
 Total Goodwill: 4,00,000 + 3,00,000 = **7,00,000**



Summary

