



# Consolidated Financial Statements



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**This document would assist the reader in understanding the applicability of preparation of CONSOLIDATED FINANCIAL STATEMENTS under Companies Act, 2013.**

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## CONSOLIDATED FINANCIAL STATEMENTS

### STATUTORY SUMMARY

Sections	Rules	Forms		Accounting Standards		
129(3) & 129(4)	Rule 6 of Companies (Accounts) Rules 2014 as amended by Companies (Accounts) Amendment Rules 2016	AOC 4	CFS	Financial Statements (CFS)	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

### REQUIREMENT OF CFS

Under clause 32 of the listing agreement all listed companies are required to publish consolidated financial statement (CFS) in its Annual Report in addition to the stand alone financial statements. There was no requirement for preparation of publish consolidated financial statement under the Companies Act 1956.

However, under the Companies Act 2013, all companies whether listed, unlisted or private company are required to prepare CFS, get it audited, get it adopted in AGM and get it filed with Registrar of Companies.

Only those companies (including private and small companies) which have a subsidiary, associate or joint venture are required to prepare CFS.

### SPECIAL EXEMPTION FOR MARCH 2015

Rule 6 of the Companies (Accounts) Rules 2014 were amended a few times to grant exemptions to certain companies. Consequently the following companies were not required to prepare CFS for financial year commencing from 1<sup>st</sup> April 2014 and ending on 31<sup>st</sup> March 2015:



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- A company which was not required to prepare CFS due to provisions of applicable Accounting Standards
- A company which did not have a subsidiary but only had an associate and / or a joint venture (notification dated 14.10.2014)
- A company which was an intermediary wholly-owned subsidiary i.e., a wholly-owned subsidiary company which further had a subsidiary company. However if such intermediary wholly-owned subsidiary's immediate parent company was incorporated outside India, such company had to prepare CFS (notification dated 14.10.2014).
- A company which had subsidiary(ies) incorporated outside India only (notification dated 16.1.2015) i.e., no subsidiary in India.

#### EXEMPTIONS FOR MARCH 2016

Some of the exemptions given by way of amendment to the Companies (Accounts) Rules 2014 were for one year only, which were not extended. Hence, the following companies only would be exempted for preparation of CFS for financial year ending on 31<sup>st</sup> March 2016:

- A company which is not required to prepare CFS due to provisions of applicable Accounting Standards
- A company which has subsidiary(ies) incorporated outside India only (notification dated 16.1.2015) i.e., no subsidiary / associate / joint venture in India.
- Intermediary Subsidiary:
  - For March 2015 only an intermediary wholly-owned subsidiary was exempted to prepare CFS
  - Vide notification dated 27<sup>th</sup> July 2016 the exemption has been extended to partially-owned subsidiary also. However it is subject to fulfilment of ALL of the following conditions:
    - The subsidiary is not a listed company or in the process of listing;
    - All members including members not entitled to vote have been intimated in writing (proof of intimation to be with company) and they do not object to CFS not been presented; and
    - Its ultimate or any intermediary subsidiary files CFS with Registrar

Hence, all companies having a subsidiary / associate / joint venture other than above would be required to prepare CFS for financial year ending 31<sup>st</sup> March 2016



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## COMPANIES NOT REQUIRED TO PREPARE CFS DUE TO AS

Irrespective of any financial year any company which is not required to prepare consolidated financial statement under the applicable accounting standards, then it may not prepare CFS, but only comply with provisions on consolidated financial statement as provided in Schedule III of the Companies Act 2013.

It is pertinent to note that according to Para 11 of Accounting Standard 21 'Consolidated Financial Statements' a subsidiary would be excluded from consolidation when:

- (a) control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future; or
- (b) it operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent.

## INSTANCES WHERE COMPANY WOULD BE REQUIRED TO PREPARE CFS

Following companies would be required to prepare CFS for year ended 31<sup>st</sup> March 2016:

- Listed Company having any or all of the following:
  - Subsidiary
  - Holding along with subsidiary / associate / joint venture
  - Associate (including partnership firm or LLP)
  - Joint Venture (including partnership firm or LLP)
- Unlisted Public Company having any or all of the following:
  - Subsidiary
  - Associate (including partnership firm or LLP)
  - Joint Venture (including partnership firm or LLP)
- Private Company having any or all of the following:
  - Subsidiary
  - Associate (including partnership firm or LLP)
  - Joint Venture (including partnership firm or LLP)
- Small Company having any or all of the following:
  - Subsidiary
  - Associate (including partnership firm or LLP)
  - Joint Venture (including partnership firm or LLP)



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## INSTANCES WHERE COMPANY WOULD NOT BE REQUIRED TO PREPARE CFS

Following companies would NOT be required to prepare CFS for year ended 31<sup>st</sup> March 2016:

- Listed Company **NOT** having any of the following:
  - Subsidiary
  - Associate (including partnership firm or LLP)
  - Joint Venture (including partnership firm or LLP)
- Unlisted Public Company **NOT** having any of the following:
  - Subsidiary
  - Associate (including partnership firm or LLP)
  - Joint Venture (including partnership firm or LLP)
- Private Company **NOT** having any of the following:
  - Subsidiary
  - Associate (including partnership firm or LLP)
  - Joint Venture (including partnership firm or LLP)
- Small Company **NOT** having any of the following:
  - Subsidiary
  - Associate (including partnership firm or LLP)
  - Joint Venture (including partnership firm or LLP)
- Unlisted wholly-owned intermediary subsidiary subject to conditions as stated above earlier in this document.
- Unlisted partially-owned intermediary subsidiary subject to conditions as stated above earlier in this document.
- Any company which is not required to prepare CFS due to provisions of applicable Accounting Standards
- Any company which has subsidiary(ies) incorporated outside India only (notification dated 16.1.2015) i.e., no subsidiary / associate / joint venture in India
  - This clause seems to be controversial due to the wordings of the proviso, which is reproduced below:
    - *“Provided also 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.”*
  - The above proviso could mean either of the following:
    - CFS is not applicable to companies having subsidiary incorporated outside India, only for the financial year commencing on or after 1st April, 2014; or



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- CFS is not applicable to companies having subsidiary incorporated outside India only, for the financial year commencing on or after 1st April, 2014.
- In my view the exemption is perpetual subject to the condition that the company does not have any subsidiary / associate / joint venture in India

I hope this document is of use to you. Your suggestions and comments would be highly appreciated.

Best Regards

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