CONSOLIDATED FINANCIAL STATEMENTS

-By CA Vivek Newatia

vnewatia@sjaykishan.com

- By CA Niketa Agarwal
niketa@sjaykishan.com

Consolidated financial statements (CFS)

Topics:

1. Introduction

Consolidated financial statements are the financial statements of a group presented as those of a single enterprise. For a wide variety of reasons such as taxation, investment laws, foreign exchange fluctuations and other business purposes, entities may choose to conduct their operations through several entities instead of a single legal entity. However, all these entities remain under the control of the ultimate parent. Hence the financial statements of the parent alone do not represent the entire economic picture of the financial position or performance of the parent. Users of the financial statements would like to know the picture of the group as a whole. Hence, there is a strong case for mandatory presentation of the consolidated financial statements so as to reflect the economic reality.

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

Erstwhile only clause 32 of the listing agreement mandated listed companies to publish Consolidated Financial Statements. Neither the Companies Act, 1956 mandated the preparation of consolidated financial statements nor do the Accounting Standards require companies to prepare Consolidated Financial Statements. With insertion of Section 129(3) in the Companies Act 2013 (“Act”), all companies including unlisted and private companies with one or more subsidiaries will in addition to separate financial statements now have to prepare Consolidated Financial Statements (“CFS”).

This article has been prepared in line with the present Companies Act, 2013. There are certain amendments in Companies (Amendment) Bill, 2016 and Accounting Standard (AS) 21 as discussed in Appendix-IV which shall come into effect from the next FY 2016-17 and hence not applicable for the FY 2015-16.

2. Understanding of the relevant provisions of Companies Act 2013 vis-à-vis Accounting Standards

2.1. Definition of subsidiary

As per AS 21:

*A **subsidiary** is an enterprise that is controlled by another enterprise (known as the parent).*

Control is defined as**:**

(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.

As per Companies Act, 2013,

Section 2 (87):

*"**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—*

(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:

Provided that such class or classes of holding companies as may be prescribed shall not have layers of subsidiaries beyond such numbers as may be prescribed.

Explanation.—For the purposes of this clause,—

(a) a company shall be deemed to be a subsidiary company of the holding company even if the control referred to in sub-clause (i) or sub-clause (ii) is of another subsidiary company of the holding company;

(b) the composition of a company's Board of Directors shall be deemed to be controlled by another company if that other company by exercise of some power exercisable by it at its discretion can appoint or remove all or a majority of the directors;

(c) the expression "company" includes any body corporate;

(d) "layer" in relation to a holding company means its subsidiary or subsidiaries;

Section 2(27):

"control" *shall include the right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or in any other manner;*

The term **'total share capital'** is defined under the Rule 2(r) of Companies (Specification of Definition Details) Rules, 2014:

"Total Share Capital", for the purposes of sub-sections (6) and (87) of section 2, means aggregate of the:-

(a) paid-up equity share capital- and

(b) convertible preference share capital.

The following points are worth mention:

a) The definition of subsidiary as per the Companies Act is at variance with the definition as per the Accounting Standard.

b) To determine whether a parent-subsidiary relationship exists from an ownership perspective, AS 21 requires the parent to own more than 50% of the voting power of the other enterprise whereas the Companies Act requires exercise or control of more than 50% of the total share capital. The Companies Rules clarify that total share capital shall mean aggregate of paid-up share capital and convertible preference share capital. Thus there may be a situation where a company may be a subsidiary under the Companies Act 2013 merely because of a particular company is holding the entire preference share capital and is not exercising any voting power. Further the word 'convertible' may include optionally convertible, partly convertible or fully convertible.

c) With respect to **control** of composition of Board of Directors, the definition of **'control'** under the Companies Act 2013 is much wider than given in AS 21. The definition of control in the Companies Act is an inclusive definition and emphasis is given not only to composition of the Board but also to control of management or policy decisions (direct or indirect).

d) The manner in which the definition of subsidiary is worded in the Companies Act, a subsidiary can either be a company or a body corporate only. Under AS 21, a subsidiary may be any enterprise and includes a company or a body corporate.

2.2. Requirement to prepare CFS

Section 129(3) requires that "where a company has one or more subsidiaries, it shall, in addition to standalone financial statements, 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 standalone financial statement."

Explanation to Section 129(3) provides that the word "subsidiary" shall include associate company and joint venture.

The first proviso provides that the Company shall also attach along with its financial statement, a separate statement containing the salient features of the financial statement of its subsidiary or subsidiaries in Form AOC-1 as prescribed under Rule 5, Companies (Accounts) Rules, 2014.

The second proviso delegates power to the Central Government to prescribe the manner in which such consolidation shall be made. Accordingly, the Central Government has issued Rule 6 of Companies (Accounts) Rules 2014 for the purpose.

The Companies Act 2013 thus requires mandatory preparation of CFS. Further, the provisions of the Act applicable to the preparation, adoption and audit of the financial statements of a holding company shall, mutatis mutandis, apply to the CFS. [Section 129(4)].

2.3. Identification of Subsidiary for CFS

The definition of subsidiary and associate as per the Act is different and much wider than the definition under the AS 21. The combined reading of AS 21 with AS 23 clearly suggests that potential equity shares of the investee are not considered for determining voting power. Further control as per AS 21 is based on voting power as against total share capital ownership under the Act. Hence there is anomaly in law as to which definition should be considered for identification of subsidiary.

Attention is invited to the relevant provisions of the Act relating to financial statements:

- **Section 129 (1) of the Act provides that the** financial statements shall give a true and fair view of the state of affairs of the company or companies, **comply with the accounting standards notified under section 133** and shall be in the form or forms as may be provided for different class or classes of companies in Schedule III. Provided that the items contained in such financial statements **shall be in accordance with the accounting standards**.

- **Further Rule 6 of the Companies (Accounts) Rules, 2014 provides that** 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.**

Thus, on reading the above provisions, it is impracticable to prepare CFS which comply with the accounting standards if the definition of subsidiary as per the Companies Act, 2013 is adopted.

Identification of subsidiary for consolidation purpose shall be made based on economic substance rather than mere legal form. The CFS should be prepared in accordance with the accounting standards and identification of subsidiary shall also be made in accordance with accounting standards. In case the same is not done, this will lead to absurd results and situations may arise where consolidation is an impossibility. Question will also arise as to how reporting of compliance with the accounting standards shall be made by the Company.

The definition section 2 of the Act starts with the words ***"In this Act, unless the context otherwise requires,"***. The principle of law against absurdity is clearly established when the application of the definition to a term in a provision containing the term makes it unworkable and otiose, it can be said that the definition is not applicable to that provision because of contrary context.

Accordingly, for identification of subsidiary/ associates/ joint ventures for consolidation purpose, definition as per AS 21/ AS 23/ AS 27 shall be used and for other regulatory matters, definition as per Act should be used.

2.4. **Manner of preparing CFS:**

The second proviso to Section 129(3) delegates power to the Central Government to prescribe the manner in which such consolidation shall be made. Accordingly, the Central Government has issued Rule 6 of Companies (Accounts) Rules 2014 for the purpose.

Rule 6 of Companies (Accounts) Rule, 2014 ("Accounts Rule") deals with the manner of consolidation and provides that the CFS of the company shall be made in accordance with the provisions of Schedule III of the Act and the applicable accounting standards.

The first proviso states that in case of a company covered under section 129(3) 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.

Further, nothing contained in Rule 6 shall apply in respect of preparation of consolidated financial statements by:

a) an intermediate wholly-owned subsidiary, other than a wholly-owned subsidiary whose immediate parent is a company incorporated outside India;
b) 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 , for the financial year commencing from the **1st day of April, 2014 and ending on the 31st March, 2015**;
c) a company having subsidiary or subsidiaries incorporated outside India **only for the financial year commencing on or after 1st April, 2014**.

On the reading the above one may argue that it is the Companies Act, 2013 which decides the need to prepare CFS and the Account Rules are relevant only for the manner of consolidating entities identified as subsidiaries/ associates/ joint ventures. The Accounts Rule cannot have an effect of overriding the provisions of the Act. 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 method in CFS.

The other view possible is that the Accounts Rules provide the manner for preparation of CFS. If the said Rule does not apply to a class of companies, there is no manner prescribed for preparation of CFS for the said class. Accordingly, in absence of manner of consolidation, there is no requirement to prepare CFS for the said class of companies. Further, the intent of the amendment in the Rule is only to mitigate the hardship on the companies. For example, there should not be any requirement of preparing CFS for intermediate wholly-owned subsidiaries if the ultimate parent company is preparing CFS.

Further, the definition of "subsidiary" for sec 129 (3) includes associates, but in case of associates, there is no such thing as consolidation. Consolidation of assets/liabilities is not done in case of associates. Merely, the valuation of investment in the associate is valued as per equity method of accounting. However, such a valuation is required only in "group accounts". Since a company not having subsidiaries is never required to prepare group accounts, there is no question of consolidation in case of a company which merely had associates. Hence, the proponents of this view argue that that a company is not required to prepare CFS if it does not have a subsidiary but has an associate or a joint venture.

A stricter and a more conservative view may be taken by preparing CFS in all cases. However, the legislative intent of the amendment in Rule 6 by giving exemption to certain companies may not be ignored. Appropriate guidance should be provided by MCA/ ICAI.

3. Broad Principles of Consolidation

3.1. General Principle of Consolidation

Consolidated financial statements should be prepared using uniform accounting policies for like transactions and other events in similar circumstances.

If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.

If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements when they are used in preparing the consolidated financial statements.

3.2. Treatment in Case of Subsidiary

Consolidation of Subsidiaries

A parent which presents consolidated financial statements should consolidate all subsidiaries, domestic as well as foreign, other than those as discussed above.

Step 1: In preparing consolidated financial statements, the financial statements of the parent and its subsidiaries should be combined on a line by line basis by adding together like items of assets, liabilities, income and expenses. In order that the consolidated financial statements present financial information about the group as that of a single enterprise, the following steps should be taken:

Step 2.: **Find out the date of acquisition**

The cost to the parent of its investment in each subsidiary and the parent's portion of equity of each subsidiary, at the date on which investment in each subsidiary is made, should be eliminated.

Step 3: **Calculate the Capital Reserve/ Goodwill:**

- 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.

- 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.

Parent's portion of Equity means:

- Share Capital of Subsidiary
- Reserve and Surplus of Subsidiary (before acquisition)

Only parent's portion shall be included

The following table will be made for the Subsidiary Company from the year in which the investment was made:

PARTICULARS	PRE ACQUISITION	POST ACQUISITION
Opening Balance in Profit & Loss	xxx	
Opening Balance- Any other Reserves	xxx	
Profit In The Year of Acquisition	xxx	xxx

If acquired during the year then the profit may be divided on the basis of number of days

Further Years Profits :		
Year XXXX		xxx
Year XXXX		xxx
Total	**xxx**	**xxx**
Minority (xx %)	**xxx**	**xxx**
Holding (xx %)	**xxx**	**xxx (Refer Note 1 below)**

Cost of Control for Holding Company	**(Amount in Rs.)**
Cost to the parent of its investment in subsidiary	xxx
Less: Parent's portion of equity of the subsidiary	
- Share Capital of Subsidiary Company (Holding Co's Share)	xxx
- Pre-acquisition profits/ reserves of Subsidiary Company (Holding Co.'s share)	xxx
Goodwill/(Capital Reserve)	**xxx**

Step 4: **Calculation of Minority's Interest**

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. Minority interests in the net assets consist of:

(i) the amount of equity attributable to minorities at the date on which investment in a subsidiary is made; and

(ii) the minorities' share of movements in equity since the date the parent-subsidiary relationship came in existence.

Minority's Share	**(Amount in Rs.)**
Share Capital of Subsidiary Company	xxx
Add:	
- Pre-acquisition profits/ reserves of Subsidiary	xxx
- Post-acquisition profits/ reserves of Subsidiary	xxx
Total	**xxx**

Minority interests should be presented in the consolidated balance sheet separately from liabilities and the equity of the parent's shareholders. Minority interests in the income of the group should also be separately presented.

Step 5: **Intragroup balances/ transactions**

Intragroup balances and intragroup transactions, including sales, expenses and dividends, are eliminated in full. Unrealised profits resulting from intragroup transactions that are included in the carrying amount of assets, such as inventory and fixed assets, are eliminated in full. Unrealised losses resulting from intragroup transactions that are deducted in arriving at the carrying amount of assets are also eliminated unless cost cannot be recovered.

NOTES:

1. The parent's share in the post-acquisition reserves of a subsidiary, forming part of the corresponding reserves in the consolidated balance sheet, is not required to be disclosed separately in the consolidated balance sheet keeping in view the objective of consolidated financial statements to present financial information of the group as a whole. In view of this, the consolidated reserves disclosed in the consolidated balance sheet are inclusive of the parent's share in the post-acquisition reserves of a subsidiary.

2. Where the carrying amount of the investment in the subsidiary is different from its cost, the carrying amount is considered for the purpose of above computations.

3. The tax expense (comprising current tax and deferred tax) to be shown in the consolidated financial statements should be the aggregate of the amounts of tax expense appearing in the separate financial statements of the parent and its subsidiaries.

4. If an enterprise makes two or more investments in another enterprise at different dates and eventually obtains control of the other enterprise, the consolidated financial statements are presented only from the date on which holding-subsidiary relationship comes in existence.

5. If a subsidiary has outstanding cumulative preference shares which are held outside the group, the parent computes its share of profits or losses after adjusting for the subsidiary's preference dividends, whether or not dividends have been declared.

6. The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are adjusted against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.

7. The results of operations of a subsidiary with which parent-subsidiary relationship ceases to exist are included in the consolidated statement of profit and loss until the date of cessation of the relationship. The difference between the proceeds from the disposal of investment in a subsidiary and the carrying amount of its assets less liabilities as of the date of disposal is recognised in the consolidated statement of profit and loss as the profit or loss on the disposal of the investment in the subsidiary.

Disclosure in financial statements

CONSOLIDATE STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31st MARCH, 2015

(Amount in Rs.)

	NOTE NO.	31.03.2015	31.03.2014
Profit /(Loss) after Tax before Minority Interest and Share of Profit/ (Loss) of Associates		xxx	xxx
Minority Interest		xxx	xxx
Share of Profit/ (Loss) of Associate		xxx	xxx
Share of Profit / (Losss) after Tax, Minority Interest and Share of Profit/ (Loss) of Associate		**xxx**	**xxx**
Earnings per share			

CONSOLIDATE BALANCE SHEET AS AT 31st MARCH, 2015

(Amount in Rs.)

PARTICULARS	NOTE NO.	31.03.2015	31.03.2014
EQUITY AND LIABILITIES			
1) SHAREHOLDERS' FUNDS			
(a) Share Capital		xxx	xxx
(b) Reserves And Surplus		xxx	xxx
		xxx	xxx
2) MINORITY INTEREST		xxx	xxx
3) NON-CURRENT LIABILITIES			
ASSETS			
1) NON-CURRENT ASSETS			
(a) Fixed Assets			
(i) Tangible Assets		xxx	xxx
(ii) Intangible Assets		xxx	xxx
		xxx	xxx
(b) Goodwill on Consolidation		xxx	xxx
(c) Non Current Investments		xxx	xxx

NOTES TO FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH, 2015

(Amount in Rs.)

Note No. - XX	31.03.2015	31.03.2014
RESERVE & SURPLUS		
(a) Capital Reserve on Consolidation		
Balance as per last account	xxx	xxx
Equity accounting of associates	xxx	xxx
	xxx	xxx

3.3. Traetment in case of Associates

Associate definition

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.

Equity Method

<u>Consolidation of Associates</u>

The equity method is a method of accounting whereby the investment is initially recorded at cost, identifying any goodwill/capital reserve arising at the time of acquisition. The carrying amount of the investment is adjusted thereafter for the post acquisition change in the investor's share of net assets of the investee. The consolidated statement of profit and loss reflects the investor's share of the results of operations of the investee.

Step 1: **Find out the date of acquisition**

An investment in an associate is accounted for under the equity method from the date on which it falls within the definition of an associate. On acquisition of the investment any difference between the cost of acquisitionand the investor's share of the equity of the associate is described as goodwill or capital reserve, as the case may be.

Step 2: **Calculate the Capital Reserve/ Goodwill:**

If the cost to the investor's investment in the associate is more than the investor's portion of equity in the associate then the difference is recognised as ***Goodwill*** and if the cost to the investor's investment in the associate is less than the investor's portion of equity in the associate then the difference is recognised as ***Capital Reserve.***

Goodwill/capital reserve arising on the acquisition of an associate by an investor should be included in the carrying amount of investment in the associate but should be disclosed separately.

<u>Investor's portion of Equity means:</u>

- Share Capital of Associate
- Reserve and Surplus of Associate (before acquisition)

Only investor's portion shall be included

The following table will be made for the Associate from the year in which the investment was made:

PARTICULARS	PRE ACQUISITION	POST ACQUISITION
Opening Balance- In Profit & Loss	xxx	
Opening Balance- Any other Reserves	xxx	
Profit In The Year of Acquisition	xxx	xxx
Further Years Profits :		
Year XXXX		xxx
Year XXXX		xxx
Total	**xxx**	**xxx**
Investor (xx %)	**xxx**	**xxx**

If acquired during the year then the profit is divided on the basis of number of days

Cost of Control for the Investor	(Amount in Rs.)
Cost to the Investor's investment in the associate	xxx
Less: Investor's portion of equity in the associate	
- Share Capital of Associate (Investor's Share)	xxx
- Pre-acquisition profits/ reserves of Associate (Investor's share)	xxx
Goodwill/(Capital Reserve)	**xxx**

Step 5: **Intragroup balances/ transactions**

In using equity method for accounting for investment in an associate,unrealised profits and losses resulting from transactions between theinvestor (or its consolidated subsidiaries) and the associate should beeliminated to the extent of the investor ’s interest in the associate.Unrealised losses should not be eliminated if and to the extent the cost of the transferred asset cannot be recovered.

NOTES:

1. Investments in associates accounted for using the equity method should be classified as long-term investments and disclosed separatelyin the consolidated balance sheet. The investor’s share of the profits or losses of such investments should be disclosed separately in the consolidated statement of profit and loss. The investor’s share of anyextraordinary or prior period items should also be separately disclosed.

2. In considering the share ownership, the potential equity shares of the investee held by the investor are not taken into account for determining the voting power of the investor.

3. Adjustments to the carrying amount of investment in an investee arising from changes in the investee’s equity that have not been included in the statement of profit and loss of the investee are directly made in the carrying amount of investment without routing it through the consolidated statement of profit and loss. The corresponding debit/credit is made in the relevant head of the equity interest in the consolidated balance sheet. For example, in case the adjustment arises because of revaluation of fixed assets by the investee, apart from adjusting the carrying amount of investment to the extent of proportionate share of the investor in the revalued amount, the corresponding amount of revaluation reserve is shown in the consolidated balance sheet.

4. If, under the equity method, an investor’s share of losses of an associate equals or exceeds the carrying amount of the investment, the investor ordinarily discontinues recognising its share of further losses and the investment is reported at nil value. Additional losses are provided for to the extent that the investor has incurred obligations or made payments on behalf of the associate to satisfy obligations of the associate that the investor has guaranteed or to which the investor is otherwise committed. If the associate subsequently reports profits, the investor resumes including its share of those profits only after its share of the profits equals the share of net losses that have not been recognised.

5. The carrying amount of investment in an associate should be reduced to recognise a decline, other than temporary, in the value of the investment, such reduction being determined and made for each investment individually.

6. On the first occasion when investment in an associate is accounted for in consolidated financial statements in accordance with this Standard, the carrying amount of investment in the associate should be brought to the amount that would have resulted had the equity method of accounting been followed as per this Standard since the acquisition of the associate. The corresponding adjustment in this regard should be made in the retained earnings in the consolidated financial statements.

Disclosure in financial statements

CONSOLIDATE STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31st MARCH, 2015

(Amount in Rs.)

	NOTE NO.	31.03.2015	31.03.2014
Profit /(Loss) after Tax before Minority Interest and Share of Profit/ (Loss) of Associates		xxx	xxx
Minority Interest		xxx	xxx
Share of Profit/ (Loss) of Associate		xxx	xxx
Share of Profit / (Losss) after Tax, Minority Interest and Share of Profit/ (Loss) of Associate		**xxx**	**xxx**
Earnings per share			

NOTES TO FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH, 2015

(Amount in Rs.)

	31.03.2015	31.03.2014
Note No. - XX		
NON_ CURRENT INVESTMENTS		
(At Cost unless otherwise stated)		
Long Term, Trade Investments		
Investment in Equity Instruments		
In Associates		
XYZ Ltd		
(i) Cost of Investment xxx equity shares of Rs. XX each, fully paid up) (including Rs. XX (P.Y. Rs. XX) of goodwill arising on consolidation	xxx	xxx
(ii) Share of post acquisition profit (net of losses)	xxx	xxx
	xxx	**xxx**
PQR Ltd		
(i) Cost of Investment xxx equity shares of Rs. XX each, fully paid up) (including Rs. XX (P.Y. Rs. XX) net of capital reserve) arising on consolidation	xxx	xxx
(ii) Share of post acquisition profit (net of losses)	xxx	xxx
	xxx	**xxx**

Details of Investment in associates are as follows:

(Amount in Rs.)

Name of the Company	Original Cost of Investment	Goodwill/ (Capital Reserve)	Accumulated profit/ (loss) as at 31.03.2015	Carrying amount of investments as on 31.03.2015
XYZ Ltd	XXX	XXX	XXX	XXX
PQR Ltd	XXX	XXX	XXX	XXX
Total	**XXX**	**XXX**	**XXX**	**XXX**

3.4. **Treatment in Case of Joint Venture**

Definitions

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

Joint control is the contractually agreed sharing of control over aneconomic activity.

Control is the power to govern the financial and operating policies of an economic activity so as to obtain benefits from it.

A ***venturer*** is a party to a joint venture and has joint control over thatjoint venture.

An ***investor*** in a joint venture is a party to a joint venture and does nothave joint control over that joint venture.

Consolidation of Joint Ventures

Proportionate Consolidation Method

1. 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.

2. The application of proportionate consolidation means that the consolidated balance sheet of the venturer includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible. The consolidated statement of profit and loss of the venturer includes its share of the income and expenses of the jointly controlled entity.

3. Many of the procedures appropriate for the application of proportionate consolidation are similar to the procedures for the consolidation of investments in subsidiaries, which are set out in Accounting Standard (AS) 21, Consolidated Financial Statements.

4. Under proportionate consolidation, the venturer includes separate line items for its share of the assets, liabilities, income and expenses of the jointly controlled entity in its consolidated financial statements. For example, it shows its share of the inventory of the jointly controlled entity separately as part of the inventory of the consolidated group; it shows its share of the fixed assets of the jointly controlled entity separately as part of the same items of the consolidated group.

Calculate the Capital Reserve/ Goodwill:

- Any excess of the cost to the venturer of its interest in a jointly controlled entity over its share of net assets of the jointly controlled entity, at the date on which interest in the jointly controlled entity is acquired, is recognised as ***goodwill,*** and separately disclosed in the consolidated financial statements.

- When the cost to the venturer of its interest in a jointly controlled entity is less than its share of the net assets of the jointly controlled entity, at the date on which interest in the jointly controlled entity is acquired, the difference is treated as a ***capital reserve*** in the consolidated financial statements.

- Where the carrying amount of the venturer's interest in a jointly controlled entity is different from its cost, the carrying amount is considered for the purpose of above computations.

Forms of Joint Venture

Joint ventures take many different forms and structures. This Statement identifies three broad types - 1. jointly controlled operations, 2. jointly controlled assets and3. jointly controlled entities,which are commonly described as, and meet the definition of, joint ventures. The following characteristics are common to all joint ventures:(a) two or more venturers are bound by a contractual arrangement; and (b) the contractual arrangement establishes joint control.

In respect of jointly controlled operations and jointly controlled assets, there is no separate entity which needs to be consolidated. Hence the requirement of consolidation arises only in the case of jointly controlled entities.

Jointly Controlled Entitites

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 controls the assets of the joint venture, incurs liabilities and expenses and earns income. It may enter into contracts in its own name and raise finance for the purposes of the joint venture activity. Each venturer is entitled to a share of the results of the jointly controlled entity, although some jointly controlled entities also involve a sharing of the output of the joint venture.

Intragroup balances/ transactions

1. While giving effect to proportionate consolidation, it is inappropriate to offset any assets or liabilities by the deduction of other liabilities or assets or any income or expenses by the deduction of other expenses or income, unless a legal right of set-off exists and the offsetting represents the expectation as to the realisation of the asset or the settlement of the liability.

2. In the separate financial statements of the venturer, the full amount of gain or loss on the transactions taking place between the venturer and the jointly controlled entity is recognised. However, while preparing the consolidated financial statements, the venturer's share of the unrealised gain or loss is eliminated. Unrealised losses are not eliminated, if and to the extent they represent a reduction in the net realisable value of current assets or an impairment loss. The venturer, in effect, recognises, in consolidated financial statements, only that portion of gain or loss which is attributable to the interests of other venturers.

NOTES:

1. In a venturer's separate financial statements, interest in a jointly controlled entity should be accounted for as an investment inaccordance with Accounting Standard (AS) 13, Accounting for Investments.

2. The losses pertaining to one or more investors in a jointly controlled entity may exceed their interests in the equity of the jointly controlled entity. Such excess, and any further losses applicable to such investors, are recognised by the venturers in the proportion of their shares in the venture, except to the extent that the investors have a binding obligation to, and are able to, make good the losses. If the jointly controlled entity subsequently reports profits, all such profits are allocated to venturers until the investors'share of losses previously absorbed by the venturers has been recovered.

3. An investor in a joint venture, which does not have joint control, should report its interest in a joint venture in its consolidated financialstatements in accordance with Accounting Standard (AS) 13, Accounting for Investments, Accounting Standard (AS) 21,Consolidated Financial Statements or Accounting Standard (AS) 23, Accounting for Investments in Associates in Consolidated FinancialStatements, as appropriate.

Disclosure in financial statements

CONSOLIDATE STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31st MARCH, 2015

(Amount in Rs.)

	NOTE NO.	31.03.2015	31.03.2014
Profit before tax		xxx	xxx
Tax expenses			
Current Tax		xxx	xxx
Deferred tax credit/ (charge) [Share of joint venture Rs. XX (2013-14 Rs. XX)		xxx	xxx
Profit /(Loss) after Tax before Minority Interest and Share of Profit/ (Loss) of Associates		**xxx**	**xxx**
Minority Interest		xxx	xxx
Share of Profit/ (Loss) of Associate		xxx	xxx
Share of Profit / (Losss) after Tax, Minority Interest and Share of Profit/ (Loss) of Associate		**xxx**	**xxx**
Earnings per share			

A Screenshot for Joint Venture disclosure- HUL Annual Report 2014-15

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Purchases of stock-in-trade	33	3,549.82	3,151.63
Changes in inventories of finished goods (including stock-in-trade) and work-in-progress	34	57.04	(171.30)
Employee benefits expenses	35	1,723.87	1,572.66
Finance costs	36	17.70	40.68
Depreciation and amortisation expenses	37	322.39	295.54
Other expenses	38	8,658.52	8,045.40
TOTAL EXPENSES		**26,898.55**	**24,824.29**
Profit before exceptional items and tax		**5,640.29**	**4,979.57**
Exceptional items	39	679.22	235.61
Profit before tax		**6,319.51**	**5,215.18**
Tax expenses			
Current tax	40	(1,959.81)	(1,228.24)
Deferred tax credit/(charge) [Share of joint venture Rs. 0.15 crores, (2013-14 Rs. 0.47 crores)]	41	15.81	(31.20)
Profit after tax and before minority interest		**4,375.51**	**3,955.74**
Less : Minority Interest		(12.43)	(10.17)
PROFIT FOR THE YEAR		**4,363.08**	**3,945.57**
Earnings per equity share	42		
Basic (Face value of Re. 1 each)		Rs. 20.17	Rs. 18.24
Diluted (Face value of Re. 1 each)		Rs. 20.16	Rs. 18.23
Significant accounting policies	2		

The accompanying notes are an integral part of these consolidated financial statements

As per our report of even date

For and on behalf of Board of Directors

For B S R & Co. LLP
Firm Registration No. 101248W/W - 100022

Sanjiv Mehta
Managing Director and CEO

PB Balaji
Executive Director (Finance & IT) and CFO

NOTES

to the financial statements for the year ended 31st March, 2015 (Contd.)

(All amounts in Rs. crores, unless otherwise stated)

5) LONG-TERM BORROWINGS

	As at 31st March, 2015	As at 31st March, 2014
Secured		
Loan from Bank*		
Share of Joint Venture - Refer Note 46	7.00	8.44
	7.00	8.44

*Loan from bank is repayable in three yearly installments starting from February, 2018; to be secured against assets to be purchased by the joint venture.

6) DEFERRED TAX LIABILITIES (NET)

	As at 31st March, 2015	As at 31st March, 2014
Share of Joint Venture - Refer Note 46	0.37	0.22
	0.37	0.22

7) OTHER LONG-TERM LIABILITIES

	As at 31st March, 2015	As at 31st March, 2014
Employee and ex-employee related liabilities	158.63	119.38
Security deposits	19.61	166.17
	178.24	285.55
Share of Joint Venture - Refer Note 46		

NOTES

to the financial statements for the year ended 31st March, 2015 (Contd.)

(All amounts in Rs. crores, unless otherwise stated)

9) SHORT-TERM BORROWINGS

	As at 31st March, 2015	As at 31st March, 2014
Unsecured		
Short-term Loan from Bank*		
Share of Joint Venture - Refer Note 46	36.04	37.14
	36.04	37.14

*Loan from bank is repayable in three yearly installments starting from February, 2018; to be secured against assets to be purchased by the joint venture.

10) TRADE PAYABLES

	As at 31st March, 2015	As at 31st March, 2014
Acceptances	439.65	889.94
Trade payables (Refer Note 11)	5,012.82	4,882.85
	5,452.47	5,772.79
Share of Joint Venture - Refer Note 46	54.84	52.07
	5,507.31	5,824.86

11) DUES TO MICRO AND SMALL ENTERPRISES

Disclosure of payable to vendors as defined under the "Micro, Small and Medium Enterprise Development Act, 2006" is based on the information available with the Group regarding the status of registration of such vendors under the said Act, as per the intimation received from them on requests made by the Group. There are no overdue principal amounts/interest payable amounts for delayed payments to such vendors at the Balance Sheet date. There are no delays in payment made to such suppliers during the year or for any earlier years and accordingly there is no interest paid or outstanding interest in this regard in respect of payments made during the year or brought forward from previous years.

19) LONG-TERM LOANS AND ADVANCES

(Unsecured, considered good unless otherwise stated)

	As at 31st March, 2015	As at 31st March, 2014
Capital advances	9.63	11.49
Security deposits		
- Deposits with customs, port trust, excise, and other government authorities	35.21	55.47
- Deposits with others	113.28	116.00
Advance income tax (net of provision for tax)	376.35	312.58
Advance agriculture tax (net of provision for tax)	5.09	5.09
Other loans and advances (includes employee advances, advances for materials etc)		
- Considered good	7.35	13.11
- Considered doubtful	46.60	50.98
- Less : Provision for doubtful loans and advances	(46.60)	(50.98)
	546.91	513.74
Share of Joint Venture - Refer Note 46	40.33	32.72
	587.24	546.46

20) OTHER NON-CURRENT ASSETS

	As at 31st March, 2015	As at 31st March, 2014
Long term deposits with original maturity of more than twelve months	0.46	0.70
	0.46	0.70
Share of Joint Venture - Refer Note 46	-	-
	0.46	0.70

NOTES

to the financial statements for the year ended 31st March, 2015 (Contd.)

(All amounts in Rs. crores, unless otherwise stated)

34) CHANGES IN INVENTORIES OF FINISHED GOODS (INCLUDING STOCK-IN-TRADE) AND WORK-IN-PROGRESS

	Year ended 31st March, 2015	Year ended 31st March, 2014
Opening inventories		
Finished goods	1,389.21	1,310.72
Work-in-progress	337.93	248.00
Transfer in by way of acquisition	-	9.37
Closing inventories		
Finished goods	(1,399.82)	(1,389.21)
Work-in-progress	(318.19)	(337.93)
Excise duty on increase/(decrease) of finished goods	51.03	(10.83)
	60.16	(169.88)
Share of Joint Venture - Refer Note 46	(3.12)	(1.42)
	57.04	(171.30)

35) EMPLOYEE BENEFITS EXPENSES

	Year ended 31st March, 2015	Year ended 31st March, 2014
Salaries, wages, bonus, etc.	1,510.43	1,361.69
Contribution to provident fund and other funds	62.13	90.06
Gratuity	12.46	14.22
Expense on employee stock option schemes (Refer Note 44)	19.41	7.00
Workmen and staff welfare expenses	106.68	90.06
	1,711.11	1,563.03
Share of Joint Venture - Refer Note 46	12.76	9.63
	1,723.87	1,572.66

36) FINANCE COSTS

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46) INTEREST IN JOINT VENTURE

The Company has the following investment, in a jointly controlled entity:

Name of the Entity	Country of Incorporation	Percentage of ownership interest, as at 31st March, 2015	Percentage of ownership interest, as at 31st March, 2014
Kimberly Clark Lever Private Limited	India	50%	50%

NOTES

to the financial statements for the year ended 31st March, 2015 (Contd.)

(All amounts in Rs. crores, unless otherwise stated)

46) SHARE IN JOINT VENTURE (CONTD.)

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to the financial statements for the year ended 31st March, 2015 (Contd.)

(All amounts in Rs. crores, unless otherwise stated)

46) SHARE IN JOINT VENTURE (CONTD.)

The Group's share of each of the assets, liabilities, income, expenses, etc. (each without elimination of the effect of transactions between the Group and the Joint Venture) related to its interests in this joint venture, based on the audited financial statement are:

	As at 31st March, 2015	As at 31st March, 2014
(a) ASSETS		
Fixed Assets (including capital work-in-progress)	43.57	28.82
Long-term loans and advances	40.33	32.72
Inventories	33.26	31.95
Trade receivables	3.36	4.82
Cash and bank balances	8.89	10.37
Short-term loans and advances	4.26	3.15
Other current assets	0.25	0.02
(b) LIABILITIES		
Long-term borrowings*	7.00	8.44
Deferred tax liability (net)	0.37	0.22
Long-term provisions	-	-
Short-term borrowings	36.04	37.14
Trade payables	54.84	52.07
Other current liabilities	14.43	5.98
Short-term provisions	0.91	0.37
* Long-term borrowings representing loan from bank repayable in three yearly installments starting from February, 2018; to be secured against assets to be purchased by the joint venture.		
(c) INCOME	177.39	156.61
(d) EXPENSES	180.01	182.46
(e) OTHER MATTERS		
Contingent liabilities	58.03	75.49
Capital commitments	0.13	0.18

4. Disclosures in CFS

For making the disclosures forming part of the notes to the consolidated financial statements, due consideration should be given to the requirements of the Companies Act and the Accounting Standards.

As per **Section 129(4) of the Companies Act, 2013, t**he provisions of the 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 referred to in Section 129(3).

Rule 6 of Companies Accounts Rules provides that CFS shall be prepared in accordance with the Accounting Standards and Schedule III. Schedule III lays down the form and content of the Balance Sheet and Statement of Profit and Loss. The Company preparing CFS is required to comply with all the requirements as stated in the said Schedule. All the disclosures which are required to be made in the standalone financial statements of a company are also required to be made in the CFS.

4.1. Disclosures under Accounting Standards:

Below is a table wherein relevant para numbers for disclosures required as per Accounting Standard has been mentioned:

Accounting Standard (AS)	Reference to Para No. of the respective AS
AS 21	**Para 11**: The reasons for not consolidating a subsidiary should be disclosed in the CFS. **Para 20:** The fact that the uniform accounting policy has not been used should be disclosed together with the proportions of the items in the CFS to which the different accounting policies have been applied. **Para 29:** General Disclosures
AS 23	**Para 7:** The reasons for not applying the equity method in accounting for investments in an associate should be disclosed in the consolidated financial statements. **Para 12:** Goodwill/capital reserve arising on the acquisition of an associate by an investor should be included in the carrying amount of investment in the associate but should be disclosed separately. **Para 21:** Disclosure w.r.t. Contingencies and Events Occurring After Balance Sheet Date**.** **Para 22:** Listing and description of associates including the proportion of ownership interest. **Para 23, Para 24, Para 25:** Other General Disclosures**.**

AS 27	**Para 51:** Disclosure w.r.t. the aggregate amount of the contingent liabilities, unless the probability of loss is remote, separately from the amount of other contingent liabilities. **Para 52:** Disclosure w.r.t. the aggregate amount of the commitments in respect of its interests in joint ventures separately from other commitments. **Para 53:** List of all joint ventures and description of interests in significant joint ventures**.** **Para 54:** A venturer should disclose, in its separate financial statements, the aggregate amounts of each of the assets, liabilities, income and expenses related to its interests in the jointly controlled entities. **Para 35, 37:** Other general disclosures.

General disclosures:

a) In consolidated financial statements a list of all subsidiaries/associates/jointly controlled entities including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held;

b) In consolidated financial statements, where applicable:
   (i) the nature of the relationship between the parent and a subsidiary, if the parent does not own, directly or indirectly through subsidiaries, more than one-half of the voting power of the subsidiary;

   (ii) the effect of the 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- **Refer Appendix- I** ; and

   (iii) the names of the subsidiary(ies)/ associates/ jointly controlled entities of which reporting date(s) is/are different from that of the parent and the difference in reporting dates.

4.2. Accounting Policies

Consolidated financial statements should be prepared using uniform accounting policies for like transactions and other events in similar circumstances.

If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.

Further, the notes to the consolidated financial statements should also disclose the basis of preparation and principles of consolidation. A draft of the same is given below for reference:

XYZ LTD

NOTES ON CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH, 2015

A. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements have been prepared to comply with the Generally Accepted Accounting Principles in India (Indian GAAP), including the Accounting Standards notified under the relevant provisions of the Companies Act, 2013.

B. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements relate to XYZ Ltd ('the Company') and its subsidiary companies, associates and joint ventures. The consolidated financial statements have been prepared on the following basis:

a. The financial statements of the Company and its subsidiary companies are combined on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses, after fully eliminating intra-group balances and intra-group transactions in accordance with Accounting Standard (AS) 21 - "Consolidated Financial Statements"

b. Interest in Joint Ventures have been accounted by using the proportionate consolidation method as per Accounting Standard (AS) 27 - "Financial Reporting of Interest in Joint Ventures".

c. In case of foreign subsidiaries, being non-integral foreign operations, revenue items are consolidated at the average rate prevailing during the year. All assets and liabilities are converted at rates prevailing at the end of the year. Any exchange difference arising on consolidation is recognised in the Exchange Fluctuation Reserve.

d. The difference between the cost of investment in the subsidiaries, over the net assets at the time of acquisition of shares in the subsidiaries is recognised in the financial statements as Goodwill or Capital Reserve, as the case may be.

e. The difference between the proceeds from disposal of investment in subsidiaries and the carrying amount of its assets less liabilities as of the date of disposal is recognised in the consolidated Profit and Loss Statement being the profit or loss on disposal of investment in subsidiary.

f. Minority Interest's share of net profit of consolidated subsidiaries for the year is identified and adjusted against the income of the group in order to arrive at the net income attributable to shareholders of the Company.

g. Minority Interest's share of net assets of consolidated subsidiaries is identified and presented in the consolidated balance sheet separate from liabilities and the equity of the Company's shareholders.

h. Investment in Associate Companies has been accounted under the equity method as per Accounting Standard (AS) 23 - "Accounting for Investments in Associates in Consolidated Financial Statements".

i. The Company accounts for its share of post-acquisition changes in net assets of associates, after eliminating unrealised profits and losses resulting from transactions between the Company and its associates to the extent of its share, through its Consolidated Profit and Loss Statement, to the extent such change is attributable to the associates' Profit and Loss Statement and through its reserves for the balance based on available information.

j. The difference between the cost of investment in the associates and the share of net assets at the time of acquisition of shares in the associates is identified in the financial statements as Goodwill or Capital Reserve as the case may be.

k. As far as possible, the consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances and are presented in the same manner as the Company's separate financial statements.

b) The list of subsidiary companies, joint ventures and associates which are included in the consolidation and the Group's holdings therein are as under:

Sl. No.	Name of the Company	Ownership in % either directly or through subsidiaries		Country of Incorporation
		2014-15	2013-14	
A.	Subsidiaries: i) ii) iii)			
B.	Associates of: i) ii) iii)			
C.	Joint Ventures of: i) ii) iii			

4.3. **Notes to CFS**

General Circular No. 39/2014 dated 14th October, 2014 - 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.

All the notes appearing in the separate financial statements of the parent enterprise and its subsidiaries need not be included in the notes to the consolidated financial statements. For preparing consolidated financial statements, the following principles may be observed in respect of notes and other explanatory material that form an integral part thereof:

a) Notes which are necessary for presenting a true and fair view of the consolidated financial statements are included in the consolidated financial statements as an integral part thereof.

b) Only the notes involving items which are material need to be disclosed. Materiality for this purpose is assessed in relation to the information contained in consolidated financial statements. In view of this, it is possible that certain notes which are disclosed in separate financial statements of a parent or a subsidiary would not be required to be disclosed in the consolidated financial statements when the test of materiality is applied in the context of consolidated financial statements.

4.4. Additional disclosures under Companies Act, 2013:

- **Additional disclosures - % of net assets – Schedule III**

In Consolidated Financial Statements, the following shall be disclosed by way of additional information:

Name of the entity in the	Net assets		Share in profit or loss	
	As % of consolidated net assets	Amount (Rs.)	As % of consolidated profit or loss	Amount (Rs.)
Parent				
Subsidiaries				
Indian				
1.				
2.				
Foreign				
1.				
2.				
Minority Interest in all subsidiaries				
Associates (Investment as per Equity method)				
Indian				
1.				
2.				
Foreign				
1.				
2.				
Joint Ventures (as per proportionate consolidation/investment as per the equity method)				
Indian				
1.				
2.				
Foreign				
1.				
2.				

- **Rule 5, Companies (Accounts) Rules, 2014:**
  The statement containing the salient feature of the financial statement of a company's subsidiary or subsidiaries, associate company or companies and joint venture or ventures under the first proviso to sub-section (3) of section 129 shall be in Form AOC-1 **(Appendix- II).**

- **Rule 8(1), Companies (Accounts) Rules, 2014:**
  The Board's Report shall be prepared based on the standalone financial statements of the company and the report shall contain a separate section wherein a report on the performance and financial position of each of the subsidiaries, associates and joint venture companies included in the consolidated financial statement is presented.

- **Rule 12, Companies (Accounts) Second Amendment Rules, 2015:**
  Every company shall file the financial statements with Registrar together with Form AOC-4 and the consolidated financial statement, if any, with Form AOC-4 CFS.

5. Independent Auditors Report on the Consolidated Financial Statements (CFS):

- The Independent Auditor's Report on CFS has been reproduced in **Appendix- III,** wherein major changes have been highlighted for ready reference.

- Annexure to the Independent Auditors' Report on the Consolidated Financial Statements is also attached herewith as **Appendix – IV.**

- **Other Matter Paragraph (Refer Appendix- III - Para No.)** The entire paragraph is new and needs to be incorporated in respect of such subsidiaries/ associates/ jointly controlled entities whose financial statements are not audited by the auditor certifying the CFS. Following disclosures are made:
  a) With respect to subsidiary/ jointly controlled entities details regarding their share in the Group's total assets, share in the Group's total revenues and their net cash flow are required to be reported.
  b) With respect to associates details regarding its share in the Group's net profit is required to be reported.

  A basis of calculating the same has reproduced below:

Calculation for Other Matters Paragraph
XYZ Ltd
Statutory Audit for the year ended 31 March 2015

Computation of % of revenue and assets of Subsidiaries/ Jointly controlled entities in consolidated financial statements

Particulars	**Holding Company**		**Subsidiaries/Jointly Controlled Entities**		**Total**	
	31-Mar-15	**31-Mar-14**	**31-Mar-15**	**31-Mar-14**	**31-Mar-15**	**31-Mar-14**
Total Revenue	xx	xx	xx	xx	xx	xx
Eliminations						
-Sales	xx	xx	xx	xx	xx	xx
-Other Income	xx	xx	xx	xx	xx	xx
Total Revenue (Consolidated)	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**
Total Assets	xx	xx	xx	xx	xx	xx
Eliminations						
Total Assets (Consolidated)	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**

Particulars	**Holding Company - Standalone**	**Subsidiaries / Jointly Controlled Entities**	**Consolidated Financial Statements**
	31-Mar-15	**31-Mar-15**	**31-Mar-15**
Cash balances in the beginning	**XX**	**XX**	**XX**
Total cashflow from Operating activity	XX	XX	XX

Total cashflow from Investing activity	XX	XX	XX
Total cashflow from Financing activity	XX	XX	XX
Cash balances at the end	**XX**	**XX**	**XX**
Net cashflow during the year	**XX**	**XX**	**XX**
Inter-company eliminations			
- On account of loan given		XX	
- Refund of advances		(XX)	
Net cashflow during the year (after eliminations)		**XX**	

Percentage for consolidated audit report:

	31-Mar-15	31-Mar-14
Revenue	**XX**	**XX**
Revenue %	**XX%**	**XX%**
Assets	**XX**	**XX**
Assets %	**XX%**	**XX%**
Cashflow	**XX**	Note
Cashflow %	**XX%**	Note

Note

Disclosure of cashflow is requirement of revised CARO so comparative figures for 2014 are not calculated.

6. Some frequently asked questions?

Q1. Whether audit of CFS compulsory? Whether all the subsidiaries/ associates/ joint ventures consolidated in the holding company needs to be audited?

Section 129(4) of the Companies Act, 2013 - The provisions of the Companies Act, 2013 in relation to the preparation, adoption and audit of the financial statements of a holding company shall, *mutatis mutandis*, apply to the consolidated financial statements referred to in Section 129(3). Hence, the CFS are required to be audited.

For purposes of audit certification of CFS, the preferred approach is to include audited financials of subsidiaries/ associates/ joint ventures**.**

Due to certain uncertainties, there may be delays in completing audit of accounts, necessitating inclusion of unaudited financials in the CFS. In such cases, the auditor may have to depend on the certification by management. In such a case, judgement needs to be exercised whether the component is material. Audit opinion may be appropriately modified if a material component has not been audited.

Q2. Whether all the subsidiaries/ associates/ JVs required to be consolidated?

In accordance to Accounting Standard (AS) 21/ 23/27:

A subsidiary/ associate/ joint venture should be excluded from consolidation when:

(a) control/ investment/ interest in jointly controlled entity is intended to be temporary because the subsidiary / investment in associate/ interest 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/ investor.

In consolidated financial statements, investments in subsidiaries/ associates should be accounted for in accordance with Accounting Standard (AS) 13, Accounting for Investments. The reasons for not consolidating a subsidiary/ associate/ jointly controlled entity should be disclosed in the consolidated financial statements. Thus a component can be excluded from consolidation only on the above grounds and not otherwise.

Important points:

- The meaning of the words '***near future'*** should be considered as not more than twelve months from acquisition of relevant investments unless a longer period can be justified on the basis of facts and circumstances of the case. The intention with regard to disposal of the relevant investment should be considered at the time of acquisition of the investment.

- Exclusion of a subsidiary from consolidation on ***the ground that its business activities are dissimilar*** from those of the other enterprises within the group is not justified because better information is provided by consolidating such subsidiaries and disclosing additional information in the consolidated financial statements about the different business activities of subsidiaries.

Q3. Can an auditor of Standalone FS and CFS be different?

There is no bar under the Companies Act, 2013 for different auditors of standalone and consolidated financial statements. However, it must be ensured that the auditor of the consolidated financial statements is appointed in the same manner as the auditor for standalone financial statements.

The auditor of the CFS may not necessarily be the auditor of the separate financial statements. In a case where the parent's auditor is not the auditor of the components included in the consolidated financial statements, the auditor of the consolidated financial statements should also consider the requirement of SA 600.

Q4. Definition of subsidiary – BOD control / voting power more than 50%

It is possible that an enterprise is controlled by two enterprises – one controls by virtue of ownership of majority of the voting power of that enterprise and the other controls, by virtue of an agreement or otherwise, the composition of the board of directors so as to obtain economic benefits from its activities.

In such a rare situation, when an enterprise is controlled by two enterprises as per the definition of 'control', the first mentioned enterprise will be considered as subsidiary of both the controlling enterprises within the meaning of this Standard and, therefore, both the enterprises need to consolidate the financial statements of that enterprise as per the requirements of this Standard.

Q5. What is the appropriate accounting procedure for indirect control:

(a) by an intermediate holding entity in its separate financial statements and
(b) in the consolidated financial statements of the group to which it belongs?

The identification of subsidiaries is based on existence or non-existence of control relationship. However, the proportion that is finally consolidated is arrived on basis of percentage effectively held by holding co. Example company H holds 60 % share each in company (I1) and company (I2) which in turn each holds 30 % each Company S. Effectively Company Group H (though intermediaries) holds 60% in Company S. However, effectively 36% is getting picked in line by line consolidation.

Q6. Whether a gratuity trust required to be consolidated?

Control exists when the parent owns, directly or indirectly through subsidiary (ies), more than one-half of the voting power of an enterprise. Control also exists when an enterprise controls the composition of the board of directors (in the case of a company) or of the corresponding governing body (in case of an enterprise not being a company) so as to obtain economic benefits from its activities.

An enterprise may control the composition of the governing bodies of entities such as gratuity trust, provident fund trust etc. Since the objective of control over such entities is not to obtain economic benefits from their activities, these are not considered for the purpose of preparation of consolidated financial statements.

Q7. LLP – consolidation. Associates/ subsidiary/ JV?

A company being a partner in a LLP may have subscribed to more than 50% of its share capital and yet may not have 51% voting power. Conversely, the company having contributed to only 30% of the capital of a firm may even have absolute voting power. Determination of the existence or absence of control in a LLP is to be made on the basis of terms of the LLP deed and a further evaluation of whether it could be an Associate (under AS 23) or a Joint Venture (under AS 27).

Q8. In case an enterprise owns majority of the voting power of another enterprise but all the shares are held as 'stock-in-trade', whether this will amount to temporary control within the meaning of paragraph 11(a) of AS 21.

Where an enterprise owns majority of voting power by virtue of ownership of the shares of another enterprise and all the shares held as 'stock-in-trade' are acquired and held exclusively with a view to their subsequent disposal in the near future, the control by the first mentioned enterprise should be considered to be temporary within the meaning of paragraph 11(a).

Q9. **In some exceptional cases, an enterprise by a contractual arrangement establishes joint control over an entity which is a subsidiary of that enterprise within the meaning of Accounting Standard (AS) 21, Consolidated Financial Statements. In such cases, should the entity consolidated under AS 21 by the said enterprise or treated as a joint venture?**

The entity is consolidated under AS 21 by the said enterprise, and is not treated as a joint venture as per this Statement.

Q10**. Is goodwill required to be amortized on Consolidation?**

Goodwill is an item of intangible assets. Para 2(b) of AS 26, scopes out application of the Standard. Judgment is to be exercised as to whether to depreciate goodwill arising on consolidation. Amortization of goodwill is NOT mandatory.

As 21 is silent with regard to the amortisation of goodwill in the statement of profit and loss. It would, however, be appropriate to carry goodwill at the value determined at the date of acquisition of the subsidiary, and test the same for impairment at every balance sheet date.

Q11. **Is Joint Venture Agreement required to be in Writing?**

The contractual arrangement may be evidenced in a number of ways, for example by a contract between the venturers or minutes of discussions between the venturers. In some cases, the arrangement is incorporated in the articles or other by-laws of the joint venture. Whatever its form, the contractual arrangement is normally in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the joint venture;

(b) the appointment of the board of directors or equivalent governing body of the joint venture and the voting rights of the venturers;

(c) capital contributions by the venturers; and

(d) the sharing by the venturers of the output, income, expenses or results of the joint venture.

The contractual arrangement establishes joint control over the joint venture. Such an arrangement ensures that no single venturer is in a position to unilaterally control the activity. The arrangement identifies those decisions in areas essential to the goals of the joint venture which require the consent of all the venturers and those decisions which may require the consent of a specified majority of the venturers.

Q12. **In case of subsidiary, how do you allocate losses to minority in case of fully eroded net worth? Would your answer be different if you are consolidating an equity affiliate?**

The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are adjusted against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses.

If, under the equity method, an investor's share of losses of an associate equals or exceeds the carrying amount of the investment, the investor ordinarily discontinues recognising its share of further losses and the investment is reported at nil value. Additional losses are provided for to the extent that the investor has incurred obligations or made payments on behalf of the associate to satisfy obligations of the associate that the investor has guaranteed or to which the investor is otherwise committed.

Q13. **Can goodwill and capital reserve arising on consolidation of different subsidiaries be set off, or should they be recorded and disclosed at gross amount?**

In the consolidated balance sheet, the amount of goodwill and capital reserve may be netted off to disclose a single amount. However, the gross amount of goodwill and capital reserve arising on the acquisition of various subsidiaries should be disclosed in the notes to the consolidated financial statements to reflect the excess or shortage of cost over the parent's position of the subsidiary's equity.

Q 14**. Whether the comparative numbers need to be given in the first set of CFS presented by an existing group?**

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 presentation of comparative numbers in the first set of CFS prepared even by an existing group.

One view is that there is no conflict between transitional provisions of AS 21 and Schedule III. AS 21 gives one exemption that 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. This interpretation is taken on the basis that when there are two legislations; one of which imposes a more stringent requirement, the stringent requirement would apply.

The other view is that Schedule III is clear that in case of any conflict between Accounting Standards and Schedule III, Accounting Standards will prevail over the Schedule III. Hence, exemption given under AS 21 can be availed by an existing group which prepares CFS for the first time. In other words, an existing Group preparing CFS for the first time need not give comparative information in their first CFS prepared under AS 21.

Both the views appear acceptable.

Q15. **XYZ ltd is a company comprised of the following share capital:**

	Rs.
10,000 Equity shares of Rs. 10/- each fully paid	= 100,000
1000 Fully Convertible Preference Shares of Rs. 100 each/-	= 100,000
Total Share Capital	= 200,000

Whether XYZ ltd is a Subsidiary Company, under Companies Act, 2013 or Accounting Standards 21, if another company, PQR Ltd, holds the following shares under different situations:

a. 100% of the Convertible Preference shares and 1 Equity share of Rs. 10/- each

b. 51% of the Equity Capital but none of the Convertible Preference shares
c. 1,000 Convertible Preference shares of Rs. 100/- each and 10 Equity shares of Rs. 10/- each

Q 16. **Treatment of Preference Shares issued by a Subsidiary Company and held by the Holding Company:**

The accounting treatment in the consolidated balance Sheet is as follows:

- Firstly the preference dividend accrued shall be deducted from the profits and the accrued preference dividend is apportioned between minority shareholders and holding company in proportion to holding. The remaining profits are divided among equity shareholders in accordance with the shares held by them. If there are losses for the current year of subsidiary company then no preference dividend is provided for.

- Secondly while calculating minority interest, the paid up value of preference shares held by them shall be added to their share.

- Thirdly the excess amount paid by the holding company for acquiring preference shares over the paid up value is treated as cost of control.

Q 17. **Payment of Dividend by the Subsidiary Co.**

Payment of dividend to the shareholders by the subsidiary co. is made out of pre-acquisition profits as well as post-acquisition profits. It has different accounting treatments as the source out of which the dividend is given is different. It may be noted that in the absence of information whether dividend has been declared out of pre-acquisition or post-acquisition profits, it is assumed that dividend is out of profits for the year for which the dividend is declared.

(i) *Payment of dividend from the pre-acquisition profits*: Dividends received out of capital of the subsidiary company. Dividends received by the holding Co. is credited to investment in shares of the subsidiary account thereby reducing the cost of control or increasing capital reserve. The following entry is passed by the holding company to record the receipt:

Bank A/c Dr.
To Investment A/c

(ii) *Payment of Dividend from the post-acquisition profits*: Dividends received out of revenue profits of the subsidiary company by holding co.is being treated as income. The following entry is passed by the holding to record the receipt.

Bank A/c Dr.
To Dividend from subsidiary co.

(iii) *Payment of Dividend Partly from capital profits and partly out of revenue profits:* The dividend received is divided into two parts in proportion to its declaration out of capital profits and revenue profits.

Q18. **In case an associate has made a provision for proposed dividend in its financial statements, whether the investor should consider the same while computing its share of the results of operations of the associate?**

In case an associate has made a provision for proposed dividend in its financial statements, the investor's share of the results of operations of the associate is computed without taking into consideration the proposed dividend.

Appendix - I

Effect of acquisition and disposal of subsidiaries during the period on the Consolidated Financial Statement is as follows:

VIDEOCON

42. The effect of acquisition and disposal of subsidiaries during the period on the Consolidated Financial Statements is as follows:

(₹ in Million)

	Name of the Company	Effect on Consolidated Profit/(Loss)	Net Assets As at 30th June, 2013
a)	**Acquisitions/Incorporations**		
	Videocon Mauritius Energy Limited	(6,390.99)	(7,023.52)
	Indigo Energy Private Limited	(0.29)	(0.21)
	Percept Energy Private Limited	(0.02)	(1.52)
b)	**Disposals/Cessation**		
	Eagle E Corp Limited	(0.08)	(1,047.08)
	Oil Services International S.A.S	0.34	-
	Emerald Copoprate Ventures Limited (formerly Videocon Energy Ventures Limited)	(0.09)	9.75
	Mercury Corporate Ventures Limited (formerly Videocon Oman 56 Limited)	0.13	(0.16)

43. As required by Accounting Standard 29 "Provisions, Contingent Liabilities and Contingent Assets" issued by the Institute of Chartered Accountants of India, the disclosure with respect to Provision for

44. a) Operating Lease:

i) Lease payments under cancellable leases are recognised as an expenses in the Consolidated Statement of Profit and Loss.

ii) The maximum obligation on long-term non-cancellable operating leases entered on or after 1st April 2001 payable as per the rentals stated in respective agreements are as follows:

(₹ in Million)

Minimum Lease Payments	As at 30th June, 2013	As at 31st Dec., 2011
Not later than 1 year	**137.60**	73.77
Later than 1 year and not later than 5 years	**549.11**	404.01
More than 5 years	**269.59**	397.52
Total	**956.30**	875.30

b) The Subsidiary Company viz. Videocon Telecommunications Limited (VTL) has entered into composite IT outsourcing agreements, wherein vendors have supplied the fixed assets and IT related services to VTL. Based on the risk and rewards incidental to the ownership, the fixed asset and liability are recorded at the fair value of the leased assets at the time of the receipt of the assets, since it is not possible for VTL to determine the extent of fixed assets and services under the contract at the inception of the contract. Such fixed assets received have been accounted for as finance lease. These assets are depreciated over the stated useful

<u>Appendix- II -Form AOC-1</u>

Form AOC-1

(Pursuant to first proviso to sub-section (3) of section 129 read with rule 5 of Companies (Accounts) Rules, 2014)

Statement containing salient features of the financial statement of subsidiaries/associate companies/joint ventures

<u>Part "A": Subsidiaries</u>

(Information in respect of each subsidiary to be presented with amounts in Rs.)

1. Sl. No.
2. Name of the subsidiary
3. Reporting period for the subsidiary concerned, if different from the holding company's reporting period
4. Reporting currency and Exchange rate as on the last date of the relevant Financial year in the case of foreign subsidiaries
5. Share capital
6. Reserves & surplus
7. Total assets
8. Total Liabilities
9. Investments
10. Turnover
11. Profit before taxation
12. Provision for taxation
13. Profit after taxation
14. Proposed Dividend
15. % of shareholding

Notes: The following information shall be furnished at the end of the statement:

1. Names of subsidiaries which are yet to commence operations
2. Names of subsidiaries which have been liquidated or sold during the year.

Part "B": Associates and Joint Ventures

Statement pursuant to Section 129 (3) of the Companies Act, 2013 related to Associate Companies and Joint Ventures

Name of associates/Joint Ventures	**Name 1**	**Name 2**	**Name 3**
1. Latest audited Balance Sheet Date			
2. Shares of Associate/Joint Ventures held by the company on the year end			
No.			
Amount of Investment in Associates/Joint Venture			
Extend of Holding%			
3. Description of how there is significant influence			
4. Reason why the associate/joint venture is not consolidated			
5. Net worth attributable to shareholding as per latest audited Balance Sheet			
6. Profit/Loss for the year			
i. Considered in Consolidation			
ii. Not Considered in Consolidation			

1. Names of associates or joint ventures which are yet to commence operations.
2. Names of associates or joint ventures which have been liquidated or sold during the year.

Note: This Form is to be certified in the same manner in which the Balance Sheet is to be certified

Appendix III:

Independent Auditors Report on the Consolidated Financial Statements (CFS)

The Auditors report shall comprise of the following paragraphs:

- Report on the consolidated financial statements
- Management's responsibility for the consolidated financial statements
- Auditor's responsibility
- Basis for Qualified Opinion *[if applicable]*
- Opinion **or** Qualified Opinion *[as applicable]*
- Emphasis of matter *[if applicable]*
- Other matters *[generally included when subsidiaries, associates and/ or joint ventures are audited by other auditors]*
- Report on other legal and regulatory requirements

Addressee:

Till the earlier year, preparation of the consolidated financial statements was required only in respect of listed companies as per the Listing Agreement. No such requirement existed in the Companies Act. The Companies Act 2013 not only requires mandatory preparation of CFS but also provides that the provisions of the Act applicable to the preparation, adoption and audit of the financial statements of a holding company shall, mutatis mutandis, apply to the CFS. [Section 129(4)].

The auditors' report on the CFS is, therefore, required to be addressed **to the Members of the Parent Company**.

Key Changes:

1. Para "Report on the Consolidated ~~Standalone~~ Financial Statements"

Paragraph reproduced with key changes highlighted:

> We have audited the accompanying consolidated financial statements of …………….. (hereinafter referred to as "the Holding Company") and its subsidiaries (the Holding Company and its subsidiaries together referred to as "the Group"), its associates and jointly controlled entities, comprising of the Consolidated Balance Sheet as at 31st March, 2015, the Consolidated Statement of Profit and Loss, the Consolidated Cash Flow Statement for the year then ended, and a summary of the significant accounting policies and other explanatory information (hereinafter referred to as "the consolidated financial statements").

Important points:

- "Associates" refer to associates required to be consolidated as per AS 23.
- "Jointly controlled entities" refer to joint ventures of the parent company required to be consolidated as per AS 27.
- In case the Company does not have any associate/ joint venture, references to associates/ jointly controlled entities to be removed.
- The associates and jointly controlled entities are not considered part of the "Group" because of the difference in the manner of consolidation. In case of associates and joint ventures, there is no concept of minority interest. Only the parent's share is accounted for.

2. Para "Management's responsibility for the Consolidated ~~Standalone~~ Financial Statements"

Paragraph reproduced with key changes highlighted:

> The Holding Company's Board of Directors is responsible for the preparation of these consolidated financial statements in terms of the requirements of the Companies Act, 2013 (hereinafter referred to as "the Act") that give a true and fair view of the consolidated financial

> position, consolidated financial performance and consolidated cash flows of the Group including its associates and jointly controlled entities in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014. The respective Board of Directors of the companies included in the Group and of its associates and jointly controlled entities are responsible for maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Group and for preventing and detecting frauds and other irregularities; the selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and the design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error, which have been used for the purpose of preparation of the consolidated financial statements by the Directors of the Holding Company, as aforesaid.

Important points:

- Reference to Section 134(5) – "Directors Responsibility Statement" not made. The reference is only to the responsibility of the Board of Directors in respect of preparation of CFS.

3. Para "Auditor's responsibility"

Paragraph reproduced with key changes highlighted:

> Our responsibility is to express an opinion on these consolidated financial statements based on our audit. While conducting the audit, we have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.
>
> We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.
>
> An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Holding Company's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Holding Company's Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.
>
> We believe that the audit evidence obtained by us and the audit evidence obtained by the other auditors in terms of their reports referred to in sub-paragraph (a) of the Other Matters paragraph below, is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.

Important points:

- Reference to "audit evidence obtained by the other auditors" should not be made if the financial statements of the holding company and its subsidiaries are audited by the same firm of chartered accountants.

4. Para "Basis for Qualified Opinion"

Only for illustration purposes, (*if applicable)*

a) As referred to in Note XX to the consolidated financial statements, the consolidated financial statements include the unaudited financial information of 1 jointly controlled entity, whose financial information reflect total assets (net) of Rs….as at 31st March, 2015, total revenue of Rs…..and net cash out flows amounting to Rs….for the year ended on that date, as considered in the consolidated financial statements, based on their unaudited financial information. This financial information has been certified by the Management and our opinion, in so far as it relates to the amounts included in respect of this jointly controlled entity, is based solely on such Management certified financial information.

b) In case of xx jointly controlled entity, as referred to in Note XX to the consolidated financial statements, the Hon'ble Supreme Court had issued an Order dated 24th September, 2014, cancelling the coal block ("coal block") allocated to the said entity. Subsequently, Government of India has promulgated the Coal Mines (Special Provisions) Ordinance, 2014. The said entity has filed a petition with the Hon'ble Delhi High Court, disputing the amount of compensation determined including relating to purchase of leasehold land for the coal block. Pending outcome of the matter, the Group has, based on a legal opinion carried forward amounts aggregating to Rs……… (net of provision of Rs…..) as fully recoverable. Accordingly, we are unable to comment on the possible financial impact on the consolidated financial statements.

5. Para "Opinion"

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid consolidated financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the consolidated state of affairs of the Group, its associates and jointly controlled entities as at 31st March, 2015, and their consolidated profit/ loss and their consolidated cash flows for the year ended on that date.

OR

In our opinion and to the best of our information and according to the explanations given to us, and based on the consideration of the reports of other auditors, on the financial statements/ consolidated financial statements of the subsidiaries, associates and jointly controlled entities noted below, the aforesaid consolidated financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the consolidated state of affairs of the Group, its associates and jointly controlled entities as at 31st March, 2015, and their consolidated profit/ loss and their consolidated cash flows for the year ended on that date.

6. Para "Qualified Opinion"

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matters described in the Basis for Qualified Opinion paragraph above, the aforesaid consolidated financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the consolidated state of affairs of the Group, its associates and jointly controlled entities as at 31st March, 2015, and their consolidated profit/ loss and their consolidated cash flows for the year ended on that date.

7. Para "Emphasis of Matter"

We draw attention to Note XX to the consolidated financial statements regarding accounting policy for recognition of actuarial valuation change of Rs. ....in the pension and other post-retirement benefit plans of …......,a subsidiary for the reasons specified therein. Had the Company recognised actuarial valuation changes in the Consolidated Statement of Profit and Loss, the loss after taxes, minority interest and share of profits of associates would have been higher by Rs. ….
Our opinion is not qualified in respect of this matter.

OR

Without qualifying our opinion, we draw attention to note XX to the consolidated financial statements that describes the principles of Accounting Standard (AS) 30, Financial Instruments: Recognition and Measurements, applied by the Group on certain foreign currency borrowing designated as a hedging instrument to hedge its net investment in a non-integral foreign operations. These principles of AS 30, are yet to be notified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014. Had the Group not applied the principles of AS 30, the profit after taxation for the year ended March 31, 2015 would have been lower by Rs…..

OR

We draw attention to Note xx to the consolidated financial statements. As referred to in the said Note, remuneration to the Managing Director and the Whole-time Directors of the Holding Company for the previous year ended 31st March, 2014 is in excess of the limits specified under Schedule XIII to the Companies Act, 1956 by Rs…..and commission of Rs….for the previous year ended 31st March, 2014 to the Non-Executive Directors of the Holding Company is in excess, since there is absence of net profits for the previous year under section 309(4) read with section 309(5) of the Companies Act, 1956. In this regard, the Holding Company has made necessary applications to the Central Government for the waiver of the excess remuneration and commission for the previous year ended 31st March, 2014. The Holding Company is awaiting Central Government approval in respect of the said applications. Our opinion is not modified in respect of this matter.

OR

We draw attention to Note XX to the consolidated financial statements. As referred to in the said Note, remuneration to the Managing Director and a Whole-time Director of the Holding Company for the year is in excess of the limits specified under Schedule V to the Companies Act, 2013 by Rs….. In this regard, the Holding Company has made necessary applications to the Central Government for approving the amounts of maximum remuneration payable, which includes the excess amounts already paid / provided. The Holding Company is awaiting Central Government approval in respect of the said applications. Our opinion is not modified in respect of this matter.

OR

We draw attention to the following matters in the Notes to the consolidated financial statements:

(a) Note XX to the consolidated financial statements, which describe uncertainties relating to the outcome of the Appeals filed before the Hon'ble Supreme Court. Pending outcome of the Appeals filed before the Hon'ble Supreme Court, no adjustment has been made by the Holding

Company in respect of the standby charges estimated at Rs….accounted for as revenue in earlier periods and its consequential effects [Note XX] for the period upto 31st March, 2015. The impact of the same on the results for the year ended 31st March, 2015 cannot presently be determined pending the ultimate outcome of the matter. Since the Holding Company is of the view, supported by legal opinion, that the Tribunal's Order can be successfully challenged, no provision/adjustment has been considered necessary by the Management.

(b) Note XX to the consolidated financial statements, which describes the key source of estimation uncertainties relating to the assessment of the recoverability of the carrying amount of the assets aggregating to Rs….of the subsidiary, its compliance with debt covenants and classification of long-term borrowings.

(c) In case of XX jointly controlled entities of the Holding Company, the component auditors have drawn attention to matters as stated in Note XX to the consolidated financial statements, regarding recoverability of Rs… (Group's share of Rs….) of value added tax and vehicle fuel tax balances and Group's share in tax claims and other contingent claims from third parties on the said jointly controlled entities, the outcome of which cannot be presently determined.

(d) In case of XX subsidiary, the component auditor has drawn attention to a matter as stated in Note XX to the consolidated financial statements, wherein no adjustment has been made by the subsidiary in respect of income estimated at Rs….as at 31st March, 2015 which includes carrying cost of Rs….for the year ended 31st March, 2015. The impact of the above as at 31st March, 2015 cannot presently be determined pending ultimate outcome of the matter. Since the Group is of the view, supported by legal opinion that the disallowance of expenses by the Delhi Electricity Regulatory Commission (DERC) pertaining to the …..plant can be successfully challenged, no adjustment has been considered necessary by the Management.

Our opinion is not qualified in respect of these matters.

8. Para "Other Matters"

We did not audit the financial statements of XX subsidiaries and XX jointly controlled entity, whose financial statements reflect the Group's share of total assets of Rs. …. as at 31st March, 2015, and the Group's share of total revenues of Rs. …. and net cash outflows amounting to Rs….. for the year ended on that date, as considered in the consolidated financial statements. The consolidated financial statements also include the Group's share of net profit of Rs….. for the year ended 31st March, 2015, as considered in the consolidated financial statements, in respect of XX associates, whose financial statements have not been audited by us. These financial statements have been audited by other auditors whose reports have been furnished to us by the management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, jointly controlled entities and associates, and our report in terms of sub-sections (3) and (11) of Section 143 of the Act, in so far as it relates to the aforesaid subsidiaries, jointly controlled entities and associates, is based solely on the reports of the other auditors.

Our opinion on the consolidated financial statements, and our report on Other Legal and Regulatory Requirements below, is not modified in respect of the above matters with respect to our reliance on the work done and the reports of the other auditors and the financial statements.

Important points:

- The entire paragraph is new and needs to be incorporated in respect of such subsidiaries/ associates/ jointly controlled entities whose financial statements are not audited by the auditor certifying the CFS.

- With respect to subsidiary/ jointly controlled entities details regarding their share in the Group's total assets, share in the Group's total revenues and their net cash flow are required to be reported.
- With respect to associates details regarding its share in the Group's net profit is required to be reported.

9. Para "Report on Other Legal and Regulatory Requirements"

1. As required by the Companies (Auditor's Report) Order, 2015 ("the Order"), issued by the Central Government of India in terms of sub-section (11) of Section 143 of the Act, based on the comments in the auditors' reports of the Holding company, subsidiary companies, associate companies and jointly controlled companies incorporated in India, we give in the Annexure a statement on the matters specified in paragraphs 3 and 4 of the Order, to the extent applicable.

2. As required by Section 143(3) of the Act, we report, to the extent applicable, that:
   a) We have sought and, obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit of the aforesaid consolidated financial statements.

   b) In our opinion, proper books of account as required by law relating to preparation of the aforesaid consolidated financial statements have been kept so far as it appears from our examination of those books and the reports of the other auditors.

   c) The Consolidated Balance Sheet, the Consolidated Statement of Profit and Loss, and the Consolidated Cash Flow Statement dealt with by this Report are in agreement with the relevant books of account maintained for the purpose of preparation of the consolidated financial statements.

   d) In our opinion, the aforesaid consolidated financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014.

   e) On the basis of the written representations received from the directors of the Holding Company as on 31st March, 2015 taken on record by the Board of Directors of the Holding Company and the reports of the statutory auditors of its subsidiary companies, associate companies and jointly controlled companies incorporated in India, none of the directors of the Group companies, its associate companies and jointly controlled companies incorporated in India is disqualified as on 31st March, 2015 from being appointed as a director in terms of Section 164 (2) of the Act.

   f) With respect to the adequacy of the internal financial controls over financial reporting of the Holding Company and the reports of the statutory auditors of its subsidiary companies, associate companies and jointly controlled companies incorporated in India and the operating effectiveness of such controls, refer to our separate report in "Annexure XX"; and

   g) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditor's) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:

      i. The consolidated financial statements disclose the impact of pending litigations on the consolidated financial position of the Group, its associates and jointly controlled entities in accordance with the generally accepted accounting practice – Refer Note XX to the consolidated financial statements.

OR,

There were no pending litigations which would impact the consolidated financial position of the Group, its associates and jointly controlled entities.

ii. The Group, its associates and jointly controlled entities did not have any material foreseeable losses on long-term contracts including derivative contracts.

OR,

Provision has been made in the consolidated financial statements, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts. – Refer Note XX to the consolidated financial statements.

iii. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Holding Company and its subsidiary companies, associate companies and jointly controlled companies incorporated in India.

OR,

Following are the instances of delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Holding Company, and its subsidiary companies, associate companies and jointly controlled companies incorporated in India.

OR,

There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Holding Company, and its subsidiary companies, associate companies and jointly controlled companies incorporated in India.

Important points:

- It may be noted that the Report on other Legal and Regulatory Requirements is required only for subsidiaries, associates and jointly controlled entities incorporated in India. The requirement stems from the provisions as contained in Sections 143(3) and 143(11) of the Companies Act 2013, which are not applicable to foreign companies and joint ventures.

- If the auditors' report is qualified, reference to the qualification may be made depending on its nature and impact. The phrase "*except for the possible effect of the matter described in sub-paragraph (a) of the Basis for Qualified Opinion above*" may be used in the clauses (a) to (f) above.

- Assessment needs to be made whether any adverse observation or emphasis of matter paragraph:
  - Has an adverse effect on the functioning of the Group.
  - Has any impact on the maintenance of accounts and other matters connected therewith.

- **As per the Companies (Auditor's Report) Order, 2016** the matters specified in paragraphs 3 and 4 of the Order, as may be applicable to a Company shall not apply to the auditor's report on consolidated financial statements.

Appendix IV:

AMENDMENTS WITH RESPECT TO CONSOLIDATED FINANCIAL STATEMENTS:

I. THE COMPANIES (AMENDMENT) BILL, 2016

a) In section 2 of the Companies Act, 2013 (hereinafter referred to as the principal Act),—

(i) in clause (6), for the Explanation, the following Explanation shall be substituted, namely:—

'Explanation.—For the purpose of this clause—

(a) the expression "significant influence" means control of at least twenty per cent. of total voting power, or control of or participation in business decisions under an agreement;
(b) the expression "joint venture" means a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement;

(iv) in clause (41), in the first proviso, after the word "subsidiary", the words "or associate company" shall be inserted;

(x) in clause (76), for sub-clause (viii), the following sub-clause shall be substituted, namely:— "(viii) any body corporate which is— (A) a holding, subsidiary or an associate company of such company; (B) a subsidiary of a holding company to which it is also a subsidiary; or (C) an investing company or the venturer of a company;"

(xii) in clause (87),— (a) in sub-clause (ii), for the words "total share capital", the words "total voting power" shall be substituted; (b) the proviso shall be omitted; (c) in the Explanation, item (d) shall be omitted;

b) In section 129 of the principal Act, for sub-section (3), the following sub-section shall be substituted, namely:—

"(3) 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 and of all the subsidiaries and associate companies in the same form and manner as that of its own and in accordance with applicable accounting standards, 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):

Provided that the company shall also attach along with its financial statement, a separate statement containing the salient features of the financial statement of its subsidiary or subsidiaries in such form as may be prescribed:

Provided further that the Central Government may provide for the consolidation of accounts of companies in such manner as may be prescribed."

c) In section 143 of the principal Act, —

(i) in sub-section (1), in the proviso, for the words "its subsidiaries", at both the places, the words "its subsidiaries and associate companies" shall be substituted;

(ii) in sub-section (3), in clause (i), for the words "internal financial controls system", the words "internal financial controls with reference to financial statements" shall be substituted;

(iii) in sub-section (14), in clause (a), for the words "cost accountant in practice", the words "cost accountant" shall be substituted.

II. <u>Accounting Standard (AS) 21: Consolidated Financial Statements</u>

With reference to paragraph 9 of the Companies (Accounting Standards) Amendment Rules, 2016, the scope of AS 21, Consolidated Financial Statements has been enhanced to align it with the requirements of the Companies Act, 2013. It states that where an enterprise does not have a subsidiary but has an associate and/or a joint venture such an enterprise should also prepare consolidated financial statements in accordance with Accounting Standard (AS) 23, Accounting for Associates in Consolidated Financial Statements, and Accounting Standard (AS) 27, Financial Reporting of Interests in Joint Ventures respectively.

These amendments shall come into force from the next financial year i.e., FY 2016-17.