Consolidation of Financial Statements (CFS)

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WIRC Seminar on Audit of
Practitioners Challenges

KNOWLEDGE THAT MATTERS. EXPERIENCE THAT COUNTS.

What are we covering today?

Background

Applicability of CFS

Principles and procedures for preparation of CFS

- Accounting Standard 21 – Consolidated Financial Statement
- Accounting Standard 23 – Accounting for investment in associate in CFS
- Accounting Standard 27 – Financial reporting of interest in joint venture

Translation of foreign operations

Audit report on CFS

Practical Issues

Background

As per internationally accepted practices, CFS generally considered as the primary financial statements as only standalone financial statement do not present a true picture from an economic entity perspective

Before Companies Act, 2013	After Companies Act, 2013
CFS was mandatory only for listed companies under the clause 32 of listing agreement	• CFS is mandatory for all companies havin subsidiaries (including associate and join venture) w.e.f. from 1st April 2014 [subject t certain exemptions]

Exemptions

Only for 2014-15 :

- Companies having only subsidiary or subsidiaries incorporated outside India
- Companies having only associate and joint venture

An intermediate wholly owned subsidiary(other than wholly owned subsidiary whose immediate parent is a company incorporated outside India)

Definition of Subsidiary

Definition of subsidiary as per the Companies Act, 2013 (“the Act”) inconsistent with Accounti
Standard 21 (“AS - 21”) – Consolidated Financial Statements like -

- The Act requires ownership of more than 50% of the total share capital or control of composition
  the board of directors to qualify as subsidiary

- Whereas AS - 21 deals with the holding of more than 50% of the voting power or control
  composition of Board of Directors of enterprise to obtain economic benefits from its activities

  AS - 21, also includes non-corporate entities for consolidation purposes whereas the Compani
  Act is restricted only to corporate entities

As per MCA clarification, financial statements prepared in accordance with Schedule III of Compani
Act, 2013 to comply with the Accounting Standard or Indian Accounting Standard as applicable

Principle and procedures for preparation of CFS

Material available for preparation of CFS

1. Accounting Standards

AS 21
Consolidated Financial Statements

AS 23
Accounting for investment in associate in Consolidated Financial Statement

AS 27
Financial reporting for investment in joint venture

AS 11
Effects of changes in foreign exchange rates
(For translation of Foreign Operations)

2. Guidance note on Audit of Consolidated Financial Statement

AS 21 – Consolidated Financial Statement

Principles

Objective

- To formulate principles and procedures for preparation of CFS

Scope

- Applicable for a group of enterprises under the control of parent entity; and investment in subsidiaries
- CFS to include all subsidiaries [Domestic and Foreign]

Components of CFS

- Consolidated Balance Sheet, Profit and Loss Account, Cash Flow Statement, notes and other explanatory material

Consolidation not required

- Control intended to be for short term & subsidiary acquired with view to its subsequent disposal in the near future
- It operates under severe long term restrictions, which significantly impair its ability to transfer funds to the parent.

Key definition

Term	Definition
Control	• >50% of voting power; or • Control of the composition of Board, to obtain economic benefits from its activities
Parent	• An enterprise that has one or more subsidiaries
Subsidiary	• An enterprise controlled by another enterprise
Minority interest	• Part of net result of operations and of net assets of subsidiary attributable to interest which are not owned directly/ indirectly, by parent

Consolidation procedure

onsolidation on line by line basis by adding together like items of assets, liabilities, income and expenses

S to be drawn up to same reporting date. If different, adjustments for effects of significant transactions/event
etween the 2 dates to be made. Gap between financial statements should not exceed 6 months

niform accounting policies should be adopted. In case not practicable / not followed, the fact should b
isclosed together with proportion of such items

ear in which parent subsidiary relationship ceases to exist, CFS to be made up-to-date of cessation. Separat
isclosure for profit / loss on sale of investment to be made

Consolidation procedure [Contd.]

Eliminate the “cost of investment to parent” and parents portion of equity in the subsidiary at the date on which investment in each subsidiary is made

- If cost of Investment > holding’s share in equity = Goodwill
- If cost of investment < holding’s share in equity = Capital reserve

n case of multiple acquisitions in subsidiaries

- Calculation of Goodwill or Capital Reserve to be made on step-by-step basis
- Consolidation to be done from date when the parent actually acquires control of the subsidiary

f financial statement (FS) on date of investment are not available or impracticable to prepare, FS of mmediately preceding financial year to be used and effect of significant transactions to be given

Consolidation procedure [Contd.]

- Eliminate intra group Transactions and resulting unrealized profit and losses as given below :

Transaction*	Elimination
Upstream Transaction [Material sold by subsidiary to parent]	on the basis of shareholding
Down Stream Transactions [Material sold by parent to subsidiary]	whole unrealized profit/ loss to be adjusted from unsold inventory irrespective of % of shareholding

* As per FAQ issued by ICAI

- Unrealized losses to be eliminated unless cost cannot be recovered

Tax expense in CFS to be aggregate of tax expense in the separate financial statements of the parent and it subsidiaries

In case subsidiary/associate have outstanding Cumulative Preference Share, whose dividend is in arrear parent share in profit / loss on subsidiary to be calculated after providing Preference Dividend, whether o not dividends have been declared

Consolidation procedure [Contd.]

Identification and accounting for minority interest (MI)

- Identify the MI in the net income of the subsidiary and adjust against the income of the group to arrive at the net income attributable to the owners of the parent
- Identify the MI in the net assets of the consolidated subsidiary and present separately in CFS from the liabilities and equity (net worth) of the parent
- In case Losses > MI share in subsidiary, excess or any further losses to be adjusted against majority except to the extent minority has binding obligation to make good the losses
  - Subsequent reported profits to be allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered

Disclosures

- List of all subsidiaries giving name, country of incorporation or residence, proportion of ownership an voting power
- Nature of relationship between parent and subsidiary
- Effect of the acquisition and disposal of subsidiaries on the financial position, results an corresponding amounts for the preceding period
- Names of subsidiaries whose FS dates are difference than that of parent
- When CFS is prepared for first time, figures for previous year need not be given
- Other notes from separate financial statements which will assist reader in better understanding of CF and other disclosure required in Schedule III

Example of disclosure as per schedule III

28. Additional Notes to the Consolidated Financial Statements (Contd.)

(ix) Additional information as required by Paragraph 2 of the General Instructions for Preparation of Consolidated Financial Statements to Schedule III to the Companies Act, 2013:

		Net Assets		Share in Profit or (Loss)	
	Name of the Entity	**As % of Consolidated Net Assets**	**Amount (₹ in Crores)**	**As % of Consolidated Profit or (Loss)**	**Amount (₹ in Crores)**
Parent	**ITC Limited**	**92.35%**	**35082.16**	**95.83%**	**9260.42**
Subsidiaries	**Indian**				
1	Russell Credit Limited	1.84%	697.56	0.57%	54.84
2	Greenacre Holdings Limited	0.14%	51.87	0.01%	1.04
3	Wimco Limited	0.01%	2.13	---	(0.47)
4	Prag Agro Farm Limited	---	0.74	---	(0.08)
5	Pavan Poplar Limited	---	(0.31)	---	(0.47)
6	Technico Agri Sciences Limited	0.31%	119.59	0.47%	45.27
7	Srinivasa Resorts Limited	0.18%	68.96	(0.01%)	(0.72)
8	Fortune Park Hotels Limited	0.09%	33.27	0.06%	5.74
9	Bay Islands Hotels Limited	0.03%	13.26	0.01%	0.99
10	ITC Infotech India Limited	0.57%	215.54	0.97%	93.56
11	Wills Corporation Limited	0.02%	6.05	---	0.46
12	Gold Flake Corporation Limited	0.04%	14.38	0.01%	1.31
13	ITC Investments & Holdings Limited	0.01%	5.09	---	0.32

Example of CFS Profit Reconciliation

ACC Limited

Strategic Business Review | Statutory Reports | **Financial Statements**

CONSOLIDATED GROUP OPERATING RESULTS FOR THE YEAR ENDED DECEMBER 31, 2014

		2014		2013
		` Crore	` Crore	` Crore
ACC's Net Profit			1,168.29	1,095.76
Add:	Pro-rata share of profits / (losses) of subsidiaries -			
	Bulk Cement Corporation (India) Limited	4.33		2.71
	ACC Mineral Resources Limited	(5.85)		(0.23)
	Lucky Minmat Limited	(0.79)		(0.42)
	National Limestone Co. Pvt. Limited	(0.23)		(0.17)
	Singhania Mineral Private Limited	(0.02)		(0.03)
			(2.56)	1.86
Add:	Pro-rata share of profit of Associates		11.38	13.09
Less:	Minority Interest of Subsidiary (BCCI)		0.23	0.15
Less:	Amortisation of Goodwill on acquisition of Subsidiary and Investment in Associates		9.30	9.30
Less:	Dividend received from Associates		9.86	6.59
Add:	Other adjustments (Net)		4.10	-
			1,161.82	1,094.67

ssues

Q1. If an enterprise is controlled by two enterprises – one controls by virtue of ownership of majority of the
oting power of that enterprise and the other controls, by virtue of an agreement or otherwise, the
omposition of the board of directors so as to obtain economic benefits from its activities

ns.: In such a rare situation, both the enterprises need to consolidate the financial statements of tha
nterprise as per the requirements of this Standard.

Q2. Whether a Company can be holding Company even if it does not hold 50% equity shares?

ns. : The definition of Subsidiary Company mentions 'total share capital'. Hence, preference capital can't be
gnored. Thus, even if a company has less than 50% equity shares in another company, the other Company can
e its holding company, if including preference share capital, the total holding is more than 50%.

ssues

Q3. In determining control, whether potential equity shares (i.e. options, convertible bonds, etc.) need to be considered ?

Ans.: In determining control, potential equity shares (e.g. options, convertible bonds, etc.) of the investee held by the investor should not be taken into account

Q4. Control over the Partnership firms : A company may also be a partner in a partnership firm. Whether FS of the partnership firm should be consolidated in the accounts of the company is dependent on whether the company owns more than one half voting power or whether it controls the composition of the governing body of the firm?

Ans.: The partnership deed, capital contribution, profit sharing ratios, the nature of the partnership in substance, etc. in totality will provide an indication of existence of control. Where partners in a firm have joint control and decision cannot be taken without an unanimous approval, the partnership may be joint venture to be accounted in accordance with AS-27.

ssues

Q5. V ltd and D ltd incorporate a SPV company for development of real estate projects. V ltd and D ltd hold 50% stake each in the SPV company. D ltd has right to appoint 3 directors and V ltd has right to appoint 2 directors. As per the shareholders agreement entered between both the parties, positive affirmation required from the directors of both the parties on matters relating to financial / operating policies of the company. No party can unilaterally take decision on matters relating to financial / operating policies of the company. Can D ltd consolidate SPV company in accordance with AS - 21 considering they have majority representation in the board of directors of SPV company?

Ans.: Control over the composition as envisaged under the AS-21 should be construed to provide power to control financial and operating policies of the company. Mere majority representation on the board of directors without any power to take decision on financial and operating policies of the company will not in substance provide control over the composition of board of directors. Hence D ltd should not consolidate SPV company under AS-21, but should consolidate it as a joint venture under AS-27

ssues

Q6. Whether Gratuity fund/ Employee trust/ ESOP trust to be consolidated

ns.: An enterprises may control the composition of the governing bodies of entities such as gratuity trust and provident fund trust. Since the objective of control over such entities is not to obtain the economic benefits rom their activities, these are not considered for the purpose of preparation of CFS.

n case of ESOP trust, SEBI requires in the standalone accounts (and consequently in the CFS) to account for SOP as if the trust does not exist and that the company is itself is issuing the ESOP

Q7. When associate becomes subsidiary during the year

ns.: Consolidate as a associate by equity accounting method as per AS 23 upto the date of transfer from ssociate to subsidiary and thereafter line by line consolidation to be done as per AS 21 for preparation o onsolidated financial statements.

Goodwill at the year end will be aggregated of goodwill of the earlier associate and goodwill on the step up nvestment

ssues

Q8. Whether all the notes appearing in the separate financial statements of the parent enterprise and its subsidiaries should be included in the notes to the consolidated financial statements?

Ans.: Notes which are necessary for presenting a true and fair view of the CFS should be included. Only the notes involving items which are material to the information contained in CFS need to be disclosed. Additiona statutory information bearing to separate financial statement of parent or its subsidiary should not be included such as:

(i) Sources from which bonus shares are issued;

(ii) Disclosure of unutilized monies;

(iii) Statement of Investments; etc.

AS 23
Accounting for investment in associate in Consolidated Financial Statement

Principles of AS 23

Objective

- Set out principle and procedures for recognizing effect of investment in associates on financial position and operating results of a group in the CFS

Scope

- Applicable in case of accounting for investments in associate in the preparation and presentation of CFS

Key definitions

- Associate - An enterprise in which investor has significant influence and which is neither subsidiary nor joint venture
- Significant influence – power to participate in financial and/or operating policy decisions of investee but not control over this policies (20% holding normally assumed as significant influence)
- Control - Same as AS -21

Consolidation procedure

nvestment to be accounted using equity method of accounting

nvestment to be initially recorded at cost, identifying goodwill/ capital reserve arising at the time o
cquisition

arrying amount adjusted thereafter for post acquisition changes in investor's share of net assets of th
nvestee

nvestors share of results of operations of investee to be included in CFS

oodwill/ capital reserve arising on the acquisition of an associate included in the carrying amount o
nvestment in the associate but should be disclosed separately

Consolidation procedure [Contd.]

nrealized profits and losses resulting from transactions between investor (or its consolidated subsidiaries
nd the associate should be eliminated to the extent of the investor's interest in the associate

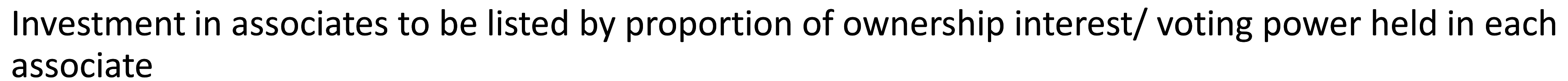
Unrealized losses to be eliminated unless cost cannot be recovered

arrying amount of investment in an associate to be reduced to recognize a permanent decline in the value o
vestment. Such recognition should be determined and made for each and every investment

niform accounting policies should be adopted. In case not practicable / not followed, the fact should b
isclosed together with brief description of differences

quity method not applied when investment is acquired and held for subsequent disposal in near future o
here are severe long term restriction that significantly impair associate's ability to transfer funds to its investo
nvestment in such associate to be accounted as per AS 13 – Accounting for Investment

Disclosures



- Investment in associates to be listed by proportion of ownership interest/ voting power held in each associate
- Investment to be classified as long term investment
- Investor’s share of profit/ loss to be disclosed separately
- Associates having different reporting dates, same to be disclosed
- Investor’s share of the contingencies and capital commitments of an associate for which parent is also contingently liable

ssues

Q9. For applying the definition of 'associate', whether the potential equity shares of the investee held by the investor should be taken into account for determining the voting power of the investor?

Ans.: AS 23 defines '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' and 'Significant influence is the power to participate in the financial and/ or operating policy decisions of an associate but does not extend to control over such policies'.

Thus it is appropriate to determine voting power on the basis of current outstanding securities with voting rights since potential equity do not have significant influence of the investee.

ssues

Q10. 30% of the non-voting preference share capital in A.

Ans.: 30% holding of the non-voting preference share capital do *not* give ABC significant influence over A and herefore, A is *not* an associate and would not be equity accounted.

Q11. 18% of the ordinary share capital in B, with directors of ABC having 2 of 5 places on the board of B.

Ans.: Despite only 18% of the ordinary share capital being held by B, having 2 out of the 5 directors effectivel gives ABC influence, but not control, over decision making in the company and, therefore, B is an associat and would be equity accounted

Q12. 45% of the ordinary share capital of C, with directors of ABC having 4 of 6 places on the board of C

Ans.: Don't just look at the 45% holding. By looking at the ability to appoint directors shows that ABC has 4 o the 6 directors, effectively giving them control over the decision making in the company. Having contro should makes C as subsidiary and, therefore, would be consolidated line by line in the group accounts an would not be equity accounted

AS 27

Financial Reporting of Interest in Joint Venture

Principles

Objective

- Set out principle and procedures for accounting for interest in joint ventures and procedure for accounting of interest in joint ventures and reporting of joint venture assets, liabilities, income, and expenses in CFS

Scope

- Applied for accounting of interest in joint venture and reporting in financial statements of ventures and investors, regardless of the structures or forms under which joint venture activities takes place

Key definitions

- A Joint venture is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control
- Joint control is the contractually agreed sharing of control over an economic activity
- Control – Power to govern the financial and operating policies of an economic activity so as to obtain benefits from it
- A venture is a party to a joint venture and has joint control over the joint venture
- An investor in a joint venture is a party and does not have joint control over the joint venture

Types of Joint Venture:

Type	Description
Jointly controlled operations(JCO)	• Use of asset and other resources of ventures instead of establishing separate entity
Jointly controlled assets (JCA)	• Joint control / ownership of one or more assets contributed to or acquired for purpose of JV
Jointly controlled entities (JCE)	• JV involving establishment of separate entity

Consolidation procedure

ccounting for Jointly Controlled Operations [JCO]

To be recognized by venturer in its separate financial statement and CFS as given below:

- Assets and liabilities that it incurs
- Its share of income that it earns and expenses that it incurs

Accounting for Jointly Controlled Assets [JCA]

- To be recognized by venturer in its separat financial statement and CFS as given below:
  - Share of jointly controlled assets classifie according to nature of assets
  - Liabilities which it has incurred
  - Its share of liabilities incurred jointly wit other ventures in relation to joint venture
  - Any income from the sale or use of its share of the output of joint venture together with it share of any expenses incurred by join venture and
  - Any expenses which it has incurred in respec of its interest in the joint venture

Consolidation procedure [Contd.]

Accounting for Jointly Controlled Entities [JCE]

- Interest to be accounted as per proportionate consolidation except where
  - An interest is acquired and held exclusively with a view to its subsequent disposal in near future
  - An interest in a jointly controlled entity which operates under severe long-term investment restrictions that significantly impair its ability to transfer funds to the Venturer
- A Venturer should discontinue use of proportionate consolidation from the date
  - It cease to have joint control over a jointly controlled entity
  - Where jointly controlled entity operates under severe long-term restrictions that significantly impair its ability to transfer funds to the Venturer
- In case of transaction with joint venture, venturer to recognizes only that share of the unrealized gain or loss which pertains to the interests of other Venturer

Consolidation procedure [Contd.]

- Transactions between Venturer and Joint Venture

Transaction	Treatment
Contributes or sells assets to a joint venture, and has transferred significant risks and rewards of ownership	Recognise only that portion of the gain or loss which is attributable t the interests of the other Venturer and recognise full amount of any los when the contribution or sale provides evidence of a reduction in the ne realisable value of current assets or an impairment loss
Purchases assets from a joint venture	It should not recognise its share of the profits of the joint venture fro the transaction until it resells the assets to an independent party. should recognise its share of losses resulting from these transactio when they represent a reduction in the net realisable value of curre assets or an impairment loss.

Disclosures

- Aggregate amount of contingent liabilities, unless probability of loss is remote, separately from the amount of other contingent liabilities
- Any contingent liabilities that the venturer has incurred in relation to its interests in joint ventures and its share in each of the contingent liabilities which have been incurred jointly with other venturer;
- Its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable
- Those contingent liabilities that arise because the venturer is contingently liable for the liabilities of the other venturer of a joint venture.

Disclosures

- Aggregate amount of capital commitments of the venturer in relation to its interests in JV and its shar in the capital commitments incurred jointly with other venturer;
- Aggregate amount of venturer's share of the capital commitments of the joint ventures themselve
- List of all joint ventures and description of interests in significant JV
- For JVE's disclose the proportion of ownership interest, name and country of incorporation o residence
- In its separate financial statements, the aggregate amounts of each of the assets, liabilities, incom and expenses related to its interests in the jointly controlled entities
- Other disclosure requirements as prescribed in Schedule III of Companies Act, 2013

Translation of foreign operations

ntegral/ Non-integral operations

- The method used to translate the financial statement of a foreign operation (Subsidiary, Associate o joint venture) depends on way in which it is financed and operates in relation to reporting enterprise Foreign operations classified under either "integral Foreign Operation" or "Non-integral Foreig Operation"

  - Integral foreign operation, the activities of which are an integral part of those of the reportin enterprise e.g. A foreign operation is integral to the operations of the reporting enterpris carried its business as if were an extension of the reporting enterprise's operation

  - Non-integral foreign operation which is no integral operation e.g. Foreign operation accumulate cash and other monetary items, incurs expenses, generates income, arrange borrowing etc.

Method of translation

Integral foreign operation	Non-integral foreign operations
Foreign currency transactions recorded at exchange rate on the date of transaction ○ For practical reasons rate that approximate actual exchange rate to be used [E.g. average rate] At balance sheet date foreign currency monetary items to be reported using closing exchange rate Non-monetary items carried at historical cost denominated in foreign currency to be reported at using exchange rates at the dates of transaction Exchange difference arising on settlement of monetary items or on reporting an enterprise’s monetary items should be recognized as income or expenses	• Asset and liability (both monetary and non-monetary) t be translated at closing rate • Income and expenses to be translated at exchange rat at the date of transaction ○ For practical reasons, rate that approximate actu exchange rate to be used [E.g. average rate] • Resulting exchange difference to be accumulated ‘foreign currency translation reserve’ until disposal net investment • On disposal of a non-integral foreign operatio cumulative amount of exchange difference accumulate under ‘foreign currency translation reserve’ whic relates to that operation should be recognized as a income or expenses

In case of Banks…

The RBI vide its guidelines (DBOD No.BP.BC.76/21.04.018/2004-05 & 2005-06 dated March 15, 2005 and Apri
, 2006), taking into consideration the operation of the foreign branches of Indian banks and the indicator
isted in paragraph 20 of AS 11, advised that: -

Bank Offices	Classification
Foreign Branches of Indian Banks	Non-integral foreign operations
Offshore Banking units (OBUs)	Non-integral foreign operations
Representative offices abroad	Integral foreign operations

Above classification is only for the limited purpose of compliance with AS 11.

Audit report on CFS

Audit report on CFS

Auditor of CFS requires to issue

- Audit report under provisions of section 143(3) and section 143(11) of the Companies Act, 2013 (Institute of Chartered Accountant Of India has issued format of audit report to be issued on CFS)
- Companies (Auditor's report) Order, 2015 [CARO] on CFS for financial year starting on or after 1st April 2014
- Report on internal financial controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 for financial year starting on or after 1st April 2015

Care to be taken in Audit Report

- Reporting on Subsidiaries, Associate and Joint Venture Entities not audited by CFS auditor
  - Reporting on total assets, total revenues and cashflows not audited by the Auditor.
  - Calculation of total assets, total revenues and cash flows [e.g. before elimination or after elimination etc.]

- Report under other regulatory requirements u/s 143(3) and section 143(11) of Companies Act, 2013
  - Relying on report of other auditors e.g. declaration by directors u/s 164(2)
  - Common error in reporting under CARO

Examples : Introductory Para in CARO

Entity name	Introductory Para
ITC LIMITED	Our reporting on the Order includes nine subsidiary companies, one jointly controlled company and seven associa companies incorporated in India, to which the Order is applicable, which have been audited by other auditors and o report in respect of these companies is based solely on the reports of the other auditors, to the extent consider applicable for reporting under the Order in the case of the consolidated financial statemen In respect of one jointly controlled company incorporated in India which has been audited by us in our opinion, a according to the information and explanations given to us, reporting under the Order is applicable in respect of t company. However, the financial year end of the aforesaid component under the Act is not the same as that of t Holding Company and, consequently, reporting under the clauses of the Order in respect of the aforesaid company for its financial year. Accordingly, our reporting under the Order in the case of the consolidated financial statements respect of the aforesaid company is based on the last audit report of such jointly controlled company.
TATA STEEL LIMITED	Our reporting on the Order includes two subsidiary companies, a jointly controlled company and an associate compa incorporated in India, to which the Order is applicable, which have been audited by other auditors and our report respect of these entities is based solely on the reports of the other auditors, to the extent considered applicable f reporting under the Order in the case of the consolidated financial statements. In respect of a subsidiary compar and an associate company incorporated in India, which have been included in the consolidated financial statemer based on unaudited financial statements of such entities provided to us by the Management, whilst in our opinion, a according to the information and explanations given to us, reporting under the Order is applicable in respect of the entities, since these entities are unaudited, the possible effects of the same on our reporting under the Order in t case of these consolidated financial statements has not been considered.

Examples : CARO clause reporting

ntity name	CARO Clause No.	Reporting
ata Motors Ltd	(ii)(b)	In our opinion and the opinion of the other auditor and according to the information and explanations given to and the other auditor, the procedures of physical verification of inventories followed by the Management of t respective companies were reasonable and adequate in relation to the size of the respective companies and t nature of their business.
et Airways (Indian) imited	(vii)	The consolidated accumulated losses of the Group and its associate at the end of the financial year are not le than fifty percent of the consolidated net worth and the Group and its associate have incurred cash losses on consolidated basis during the financial year covered by our audit and in the immediately preceding financial year.
ditya Birla Nuvo imited	(iv)	In our opinion and according to the information and explanations given to us and as reported by the auditors Covered Entities, there are adequate internal control systems commensurate with the size of the Holding Compa and the Covered Entities and the nature of their businesses, for the purchase of inventory and fixed assets and f the sale of goods and services. During the course of our audit and as reported by the auditors of the Cover Entities, no major weakness or continuing failure to correct any major weakness in the interr control system was observed in respect of these areas.
TC Limited	(xii)	To the best of our knowledge and according to the information and explanations given to us and the other audito no fraud by the Holding Company, its subsidiary companies, associate companies and jointly controlled compani incorporated in India and no significant fraud on the Holding Company, its subsidiary companies, associa companies and jointly controlled companies incorporated in India has been noticed or reported during the year.

ssues

Q15. Subsidiary company is not Going concern and its accounts are prepared on a not for going concerr basis. The parent company does not intend to provide any financial or other support to this subsidiary. The parent company and other subsidiaries are highly profitable and there is no issue of going concern in these entities

Ans.: CFS auditor should evaluate how material and important the subsidiary is in the context of the CFS and impact on its audit report

Practical Issues

Practical Issues

- Tracking of consolidation adjustments
  - Current period consolidation adjustments
  - Permanent Adjustments
- Opening reserve reconciliation
- Profit reconciliation
- Segment reporting in case of consolidation
- Consolidated Cash flow statement related issues
  - Treatment for subsidiary / JV acquired / sold during the period
  - Parent and subsidiary having different business (NBFC and manufacturing)

Practical Issues

- Provision for Impairment / diminution made in standalone FS -Treatment in CFS
  - In value of investment in subsidiary
  - Trade / Advances receivable
- Amortization of goodwill arising on consolidation
  - ACC Limited - Amortized over 10 years
  - ITC Limited - Not amortized
- Different operating cycles followed by subsidiaries
- Treatment of Inter group transaction elimination in consolidation like :
  - Interest charged by parent and capitalized / inventories by subsidiary
  - Effect on POCM in case of real estate
- Whether standalone financial statement or CFS of Joint Venture or Associate to be taken for Consolidation – No clarity in accounting standards

Thank You

C.A. Sandeep Shah