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Friday, 22 March 2024 12:02 AM

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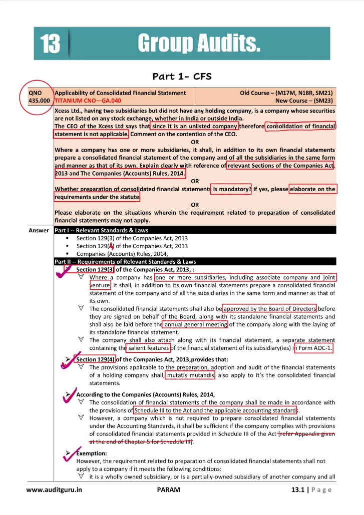


13 Group Audits.

Part 1- CFS

QNO 435.000	Applicability of Consolidated Financial Statement TITANIUM CNO—GA.040	Old Course – (M17M, N18R, SM21) New Course – (SM23)

Xcess Ltd., having two subsidiaries but did not have any holding company, is a company whose securities are not listed on any stock exchange, whether in India or outside India.
The CEO of the Xcess Ltd says that since it is an unlisted company therefore consolidation of financial statement is not applicable. Comment on the contention of the CEO.

OR

Where a company has one or more subsidiaries, it shall, in addition to its own 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. Explain clearly with reference of relevant Sections of the Companies Act, 2013 and The Companies (Accounts) Rules, 2014.

OR

Whether preparation of consolidated financial statements is mandatory? If yes, please elaborate on the requirements under the statute.

OR

Please elaborate on the situations wherein the requirement related to preparation of consolidated financial statements may not apply.

Answer

Part I -- Relevant Standards & Laws

- Section 129(3) of the Companies Act, 2013
- Section 129(4) of the Companies Act, 2013
- Companies (Accounts) Rules, 2014,

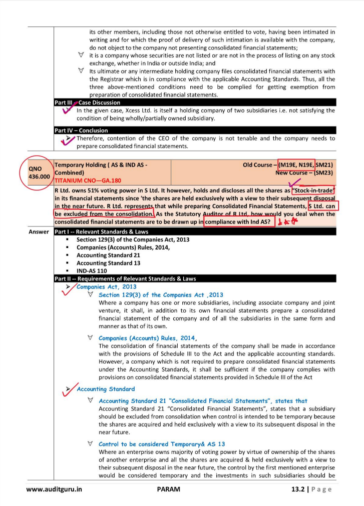
Part II -- Requirements of Relevant Standards & Laws

- **Section 129(3) of the Companies Act, 2013, :**
  - Where a company has one or more subsidiaries, including associate company and joint venture, it shall, in addition to its own 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.
  - The consolidated financial statements shall also be approved by the Board of Directors before they are signed on behalf of the Board, along with its standalone financial statements and shall also be laid before the annual general meeting of the company along with the laying of its standalone financial statement.
  - The company shall also attach along with its financial statement, a separate statement containing the salient features of the financial statement of its subsidiary(ies) in Form AOC-1.
- **Section 129(4) of the Companies Act, 2013,provides that:**
  - The provisions applicable to the preparation, adoption and audit of the financial statements of a holding company shall, mutatis mutandis also apply to it's the consolidated financial statements.
- **According to the Companies (Accounts) Rules, 2014,**
  - The consolidation of financial statements of the company shall be made in accordance with the provisions of Schedule III to the Act and the applicable accounting standards.
  - However, a company which is not required to prepare consolidated financial statements under the Accounting Standards, it shall be sufficient if the company complies with provisions of consolidated financial statements provided in Schedule III of the Act ~~[refer Appendix given at the end of Chapter 5 for Schedule III]~~.
- **Exemption:**
  However, the requirement related to preparation of consolidated financial statements shall not apply to a company if it meets the following conditions:
  - it is a wholly owned subsidiary, or is a partially-owned subsidiary of another company and all

- Sec129(3) → All Cos → Consolidated FST
↓
Sub/JV/Associate

- Exemption → Co. Act → Intermediary Subsidiary
→ Ind AS → Investment Entity
Ind AS110
→ AS → Temporary Holding
→ Severe Restrictions

- Who ✓
- How ✓
- Exemption ✓



its other members, including those not otherwise entitled to vote, having been intimated in writing and for which the proof of delivery of such intimation is available with the company, do not object to the company not presenting consolidated financial statements;
  - it is a company whose securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India; and
  - Its ultimate or any intermediate holding company files consolidated financial statements with the Registrar which is in compliance with the applicable Accounting Standards. Thus, all the three above-mentioned conditions need to be complied for getting exemption from preparation of consolidated financial statements.

Part III – Case Discussion

- In the given case, Xcess Ltd. is itself a holding company of two subsidiaries i.e. not satisfying the condition of being wholly/partially owned subsidiary.

Part IV – Conclusion

- Therefore, contention of the CEO of the company is not tenable and the company needs to prepare consolidated financial statements.

QNO 436.000	Temporary Holding (AS & IND AS - Combined) TITANIUM CNO—GA.180	Old Course – (M19E, N19E, SM21) New Course – (SM23)

R Ltd. owns 51% voting power in S Ltd. It however, holds and discloses all the shares as "Stock-in-trade" in its financial statements since 'the shares are held exclusively with a view to their subsequent disposal in the near future. R Ltd. represents that while preparing Consolidated Financial Statements, S Ltd. can be excluded from the consolidation. As the Statutory Auditor of R Ltd. how would you deal when the consolidated financial statements are to be drawn up in compliance with Ind AS?

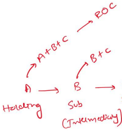
Answer

Part I -- Relevant Standards & Laws

- **Section 129(3) of the Companies Act, 2013**
- **Companies (Accounts) Rules, 2014,**
- **Accounting Standard 21**
- **Accounting Standard 13**
- **IND-AS 110**

Part II -- Requirements of Relevant Standards & Laws

- *Companies Act, 2013*
  - *Section 129(3) of the Companies Act ,2013*
    Where a company has one or more subsidiaries, including associate company and joint venture, it shall, in addition to its own 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.
  - *Companies (Accounts) Rules, 2014*,
    The consolidation of financial statements of the company shall be made in accordance with the provisions of Schedule III to the Act and the applicable accounting standards. However, a company 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
- *Accounting Standard*
  - *Accounting Standard 21 "Consolidated Financial Statements", states that*
    Accounting Standard 21 "Consolidated Financial Statements", states that a subsidiary should be excluded from consolidation when control is intended to be temporary because the shares are acquired and held exclusively with a view to its subsequent disposal in the near future.
  - *Control to be considered Temporary& AS 13*
    Where an enterprise owns majority of voting power by virtue of ownership of the shares of another enterprise and all the shares are acquired & held exclusively with a view to their subsequent disposal in the near future, the control by the first mentioned enterprise would be considered temporary and the investments in such subsidiaries should be



accounted for in accordance with AS 13 "Accounting for Investments".

- ***Certain things that auditor should verify***

  In the case of an entity which is excluded from consolidation on the ground that the relationship of parent with the other entity as subsidiary is temporary, the auditor should verify that
  - the intention of the parent, to dispose the subsidiary, in the near future, existed at the time of acquisition of the subsidiary.
  - The auditor should also verify that the reasons for exclusion are given in the consolidated financial statements.

- ***As per Ind AS 110 "Consolidated Financial Statements", states***

  There is no such exemption for 'temporary control', or "for operation under severe long-term funds transfer restrictions" and consolidation is mandatory for Ind AS compliant financial statement in this case.

Part III – Case Discussion

- In the given case, Parent Ltd. has acquired 51% shares of Child Ltd. during the year ending 31.03.2016 and sold 20% shares during the year 2016-17. Parent Ltd. did not consolidate the financial statements of Child Ltd. for the year ending 31.03.2016 and 31.03.2017.

Part IV – Conclusion

- The intention of Parent Ltd. is quite clear that the control in Child Ltd. is temporary as the former company disposed off the acquired shares in the next year of its purchase.
  - ***AS 21 "Consolidated Financial Statements"***
    - Therefore, Parent Ltd. Is not required to prepare consolidated financial statement **as per AS 21**
    - However, for the compliance of provisions related to consolidation of financial statements given under section 129(3) of the Companies Act, 2013, Parent Ltd. is required to made disclosures in the financial statements as per the provisions provided in Schedule III to the Companies Act' 2013.
  - ***Ind AS 110 "Consolidated Financial Statements"***
    - However, if the Parent Ltd. is required to prepare its financial statements under Ind AS, it shall have to prepare Consolidated Financial Statements **in accordance with Ind AS 110** as exemption for 'temporary control', or "for operation under severe long -term funds transfer restrictions" is not available under Ind AS 110.
    - Paragraph 20 of Ind AS 110 states that "Consolidation of an investee shall begin from the date the investor obtains control of the investee and cease when the investor loses control of the investee".

Author's Note

- **Refer author's note of QNO 436.300.**

QNO 436.100	**Temporary Holding (AS)** **TITANIUM CNO— GA.180**	**Old Course – (M6E, M8E, M15E, M15R, M16M, SM17, PM17, N18R, N18M, M18M, SM21)**

R Ltd owns 51% voting power in S Ltd It however, holds and discloses all the shares as Stock-in-trade in its accounts The shares are held exclusively with a view to their subsequent disposal in the near future R Ltd represents that while preparing Consolidated Financial Statements, S Ltd can be excluded from the consolidation As a Statutory Auditor, how would you deal?

OR

Moon Ltd. acquired 51% shares of Star Ltd. during the year ending 31-3-2017. During the financial year 2017-18 the 20% shares of Star Ltd. were sold by Moon Ltd. Moon Ltd. while preparing the financial statements for the year ending 31-3-2017 and 31-3-2018 did not consider the financial statements of Star Ltd. for consolidation. As a statutory auditor how would you deal with it?

OR

Ajanta Ltd. owns 51% voting power in Alora Ltd. It discloses all the shares as "Stock-in-trade" in its accounts with a view to their subsequent disposal in the near future. Ajanta Ltd. represents that while preparing Consolidated Financial Statements, Alora Ltd. can be excluded from the consolidation. As a Statutory Auditor, how would you deal?

Answer

Part I -- Relevant Standards & Laws

- **Section 129(3) of the Companies Act, 2013**
- **Companies (Accounts) Rules, 2014,**
- **Accounting Standard 21**
- **Accounting Standard 13**

Part II -- Requirements of Relevant Standards & Laws

- ***Companies Act, 2013***
  - ***Section 129(3) of the Companies Act ,2013***

    Where a company has one or more subsidiaries, including associate company and joint venture, it shall, in addition to its own 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.
  - ***Companies (Accounts) Rules, 2014,***

    The consolidation of financial statements of the company shall be made in accordance with the provisions of Schedule III to the Act and the applicable accounting standards. However, a company 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
- ***Accounting Standard***
  - ***Accounting Standard 21 "Consolidated Financial Statements", states that***

    Accounting Standard 21 "Consolidated Financial Statements", states that a subsidiary should be excluded from consolidation when control is intended to be temporary because the shares are acquired and held exclusively with a view to its subsequent disposal in the near future.
  - ***Control to be considered Temporary & AS 13***

    Where an enterprise owns majority of voting power by virtue of ownership of the shares of another enterprise and all the shares are acquired & held exclusively with a view to their subsequent disposal in the near future, the control by the first mentioned enterprise would be considered temporary and the investments in such subsidiaries should be accounted for in accordance with AS 13 "Accounting for Investments".
  - ***Certain things that auditor should verify***

    In the case of an entity which is excluded from consolidation on the ground that the relationship of parent with the other entity as subsidiary is temporary, the auditor should verify that
    - the intention of the parent, to dispose the subsidiary, in the near future, existed at the time of acquisition of the subsidiary.
    - The auditor should also verify that the reasons for exclusion are given in the consolidated financial statements.

Part IV – Conclusion

- The intention of R Ltd. is quite clear that the control in S ltd is temporary as shares are held exclusively with a view of subsequent disposal in the near future
- Therefore, R Ltd. Is not required to prepare consolidated financial statement **as per AS 21.**
- However, for the compliance of provisions related to consolidation of financial statements given under section 129(3) of the Companies Act, 2013, R Ltd. is required to made disclosures in the financial statements as per the provisions provided in Schedule III to the Companies Act' 2013.

Author's Note

- **Refer author's note of QNO 436.300.**

QNO 436.200	**Temporary Holding (IND AS)** **TITANIUM CNO— GA.180**	**Old Course – (M17E)** **New Course – (SM23)**

Moon Ltd acquired 65% shares of Sun Ltd on 28th October 2016 On 25th April 2017they sold 25% shares

of Sun Ltd While preparing consolidated financial statements for the year ended 31st March, 2017, accountant of Moon Ltd did not consider financial statements of Sun Ltd for consolidation. Comment

Answer

Part I -- Relevant Standards & Laws

- **Section 129(3) of the Companies Act, 2013**
- **Companies (Accounts) Rules, 2014,**
- **IND-AS 110**

Part II -- Requirements of Relevant Standards & Laws

- Companies Act, 2013
  - Section 129(3) of the Companies Act ,2013

    Where a company has one or more subsidiaries, including associate company and joint venture, it shall, in addition to its own 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.
  - Companies (Accounts) Rules, 2014,

    The consolidation of financial statements of the company shall be made in accordance with the provisions of Schedule III to the Act and the applicable accounting standards. However, a company 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
- Accounting Standard
  - As per Ind AS 110 "Consolidated Financial Statements", states

    There is no such exemption for 'temporary control' or "for operation under severe long-term funds transfer restrictions" and consolidation is mandatory for Ind AS compliant financial statement in this case.

Part III – Case Discussion

- In the given case, **Moon Ltd acquired 65% shares of Sun Ltd on 28th October 2016 on 25th April 2017they sold 25% shares of Sun Ltd. On 31st of March control existed.**

Part IV – Conclusion

- Here as per In AS 110 "Consolidated Financial Statements "if MOON Ltd. is required to prepare its financial statements under Ind AS, it shall have to prepare Consolidated Financial Statements **in accordance with Ind AS 110** as exemption for 'temporary control', or "for operation under severe long -term funds transfer restrictions" is not available under Ind AS 110.
- Paragraph 20 of Ind AS 110 states that "Consolidation of an investee shall begin from the date the investor obtains control of the investee and cease when the investor loses control of the investee".

Author's Note

- **Answer of this question has been redrafted as per IND-AS**
- **Refer author's note of QNO 436.300.**

Exemption

QNO 436.300 ~~Temporary Holding~~ **(Investment Company)** **Old Course – (N18E, SM21, N21E, N22R, N23R)**

TITANIUM CNO— GA.040

H its Financial Statements in accordance with Ind AS. The Company obtains funds from various investors and commits its performance for fair return and capital appreciation to its investors. During the year under audit, it had been observed that the Company had invested 25 % in SI Ltd., 50% in S2 Ltd. and 60% in S3 Ltd. of the respective share capitals of the Investee Companies. When checking the investment schedule of the Company, an issue cropped as to whether there would arise any need X to consolidate accounts of any such investee companies with those of H Limited in accordance with section 129(3) of the Companies Act, 2013 which contains no exclusion from consolidation. Analyse the issues involved and give your opinion.

OR

Jambu & Sudharma Investments Ltd. is a company having paid up share capital of ₹ 1 crore, it has a subsidiary, Investors Fund Management Ltd. Major business of Jambu & Sudharma Investments Ltd. is to pool money from investors on a collective basis and invest this money in various funds. This company pooled ₹ 12 crore from a number of clients, which represent the Company's shareholders. While auditing books of accounts of Jambu & Sudharma Investments Ltd. CA Vardhman observed that whole amount of

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₹ 12 crore pooled has been invested in shares and debentures of various companies and profit earned due to appreciation of the prices of these shares has been distributed to various shareholders of the company. Performance of all of its investments is measured on fair value basis. Now, CA Vardhman raised an issue while auditing financial statements of Jambu & Sudharma Investments Ltd. whether the consolidated financial statements are required as per Section 129(3) of the Companies Act, 2013? Analyse the above issue and give your opinion.

Answer

Part I -- Relevant Standards & Laws

- Ind AS 110'Consolidated Financial Statements'
- Section 129(3) of the Companies Act, 2013
- Companies (Accounts) Rules, 2014

Part II -- Requirements of Relevant Standards & Laws

- Section 129(3) of the Companies Act, 2013

  Where a company has one or more subsidiaries, including associate company and joint venture, it shall, in addition to its own 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.
- Companies (Accounts) Rules, 2014,

  The consolidation of financial statements of the company shall be made in accordance with the provisions of Schedule III to the Act and the applicable accounting standards. However, a company 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.
- Ind AS 110'Consolidated Financial Statements'

  However, an investment entity need not present consolidated financial statements if it is required, in accordance with Ind AS 110'Consolidated Financial Statements', to measure all of its subsidiaries at fair value through profit or loss. A parent shall determine whether it is an investment entity.

  An investment entity is an entity that
  - obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
  - commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
  - measures and evaluates the performance of substantially all of its investments on a fair value basis.

Part III – Case Discussion

- In the given case, H Limited is an investment company preparing its financial statements in accordance with Ind AS and the company had invested 25% in SI Ltd., 50% in S2 Ltd. and 60% in S3 Ltd. of the respective share capitals of the investee companies.

Part IV – Conclusion

- In view of provisions discussed in Ind AS 110, the Company is not required to prepare consolidated financial statements however, for the compliance of Companies (Accounts) Rules, 2014, it shall be sufficient if the company complies with provisions on consolidated financial statements provided in Schedule III of the Act.

  Thus, it can be concluded that ultimate authority on consolidation is AS / Ind AS as prescribed by law and if they give some exemption it should be followed. If out of exemption some subsidiaries are not consolidated, then list should be disclosed in notes to accounts with reason.

Author's Note

1.

#controversy

This answer originally when provided by ICAI in suggested of NOV 18 (New) was not correct but later on Board of Studies changed the answer after discussion with the author.

2. AS-21 , gives two exemption from consolidation.

(a) Temporary Holding
(b) Restriction on repartrition of funds

But IND-AS 110, does not gives above two exemptions.So consolidation will be required as per IND-AS 110, even in above two points (a) & (b) are applicable.

IND-AS 110 gives exemptions in folowing cases

(i) Investment entities
(ii) Intermediary Subsidiaries(provided all conditions are satisfied)
(iii) Employee benefit plans covered under IND-AS 19

If the question is silent about whether the answer should be as per AS or IND AS ,it is advisable that answer should be provided per both .

3. The answer provided above is with reference to Investment company, for which exempotion given under Ind AS.

QNO 436.400	**Exemption from Consolidation for Intermediate Subsidiary & Give 2 Reasons of Exclusion (Exemption)** **TITANIUM CNO— GA.180**	**Old Course – (N20E)**

JRS Limited holds the majority ownership of R Ltd. & K Ltd. S Ltd. is an intermediate subsidiary of JRS Limited in Surat. The JRS Limited presents the consolidated financial statements for audit purposes to MMT & Co. As a statutory auditor MMT & Co. obtain a listing of all the components and verify that all the components included in financial statements unless any component meet criterion for exclusion. Explain any two reasons which are considered by MMT & Co. for exclusion of components from the consolidated financial statements and reporting of reasons of exclusion thereof.

Answer **Where a component is excluded from the consolidated financial statements, the auditor should examine the reasons for exclusion and whether such exclusion is in conformity with the applicable financial reporting framework.**

(i) Under Companies (Accounting Standards) Rules, 2006, there could be two reasons for exclusion of subsidiary, associate or jointly controlled entity- one, that the relationship of parent with the subsidiary, associate or jointly controlled entity is intended to be **temporary** or the subsidiary, associate or joint venture operates under severe **long-term restrictions** which significantly impair its ability to transfer funds to the parent.

(ii) Similarly, under the Companies Act, 2013, **intermediate subsidiary** in India is not required to present consolidated financial statements. **Ind AS 110** also prescribes certain criteria where consolidated financial statements are not required. In such cases, the auditor should satisfy himself that the exclusion made by the management falls within these categories, example in the case of an entity which is excluded from consolidation on the ground that the relationship of parent with the other entity as subsidiary, associate or joint venture is **temporary**, the auditor should verify that the intention of the parent, to dispose off the subsidiary, investment in associate or interest in jointly controlled entity, in the near future, existed at the time of acquisition of the subsidiary, making investment in associate or jointly controlled entity.

(iii) The auditor should also verify that the reasons for exclusion are given in the consolidated financial statements. If an entity is excluded from the consolidated financial statements for reasons other than those allowed by the applicable financial reporting framework, the auditor should consider its effect on the auditor's report to be issued.

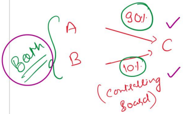
QNO 437.000	**Control Over Composition of Board** **TITANIUM CNO— GA.160**	**Old Course – (M15E, SM17, PM17, N17R, SM21, M21M)** **New Course – (SM23)**

ALFA Ltd. holds the ownership of 10% of voting power and control over the composition of Board of Directors of GAMA Ltd. While planning the statutory audit of ALFA Ltd., what factors would be considered by you for audit of financial statements?

Answer

- ✓ **Facts of the Case**

  In this case, A Ltd. holds only 10 percent of the voting power and control over the composition of the Board of Directors of B Ltd. In such a case, A Ltd. would be considered as a parent of B Ltd. and, therefore, it would consolidate B Ltd. in the consolidated financial statements as subsidiary



- ✓ **Audit Procedure**
  - **(Obtain Understanding)**- The auditor should make plans, among other things, for the understanding of accounting policies of the parent, subsidiaries, associates and joint ventures and determining and programming the nature, timing, and extent of the audit procedures to be performed etc.
  - **Control overboard**- The auditor should verify whether the parent controls the composition of the Board of Directors or corresponding governing body of any entity. There would be various means by which such kind of control can be obtained.

    In this regard, the auditor may verify the Board's minutes, shareholder agreements entered into by the parent, agreements with the entities to which the parent might have provided any technology or know how, enforcement of statute, as the case may be, etc.
  - **(Adjustments)**-The auditor should verify that the adjustments warranted by the relevant accounting standards have been made wherever required and have been properly authorized by the management of the parent. The preparation of consolidated financial statements gives rise to permanent consolidation adjustments and current period consolidation adjustments.
  - **AS 18**-Further, the duties of an auditor with regard to reporting of transactions with related parties as required by Accounting Standard 18 are given in SA 550 on Related Parties.
  - **SA 550**-As per SA 550 on, "Related Parties", the auditor should review information provided by the management of the entity identifying the names of all known related parties. A person or other entity that has control or significant influence, directly or indirectly through one or more intermediaries, over the reporting entity are considered as Related Party.
  - **Framing Opinion**- In forming an opinion on the financial statements the auditor shall evaluate whether the identified related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework and whether the effects of the related party relationships and transactions prevent the financial statements from achieving true and fair presentation (for fair presentation frameworks); or cause the financial statements to be misleading (for compliance frameworks).

Author's Note

- **Is 10% shareholding minimum for control over the composition of Board?**
  - **No, there is no 10% rule or criteria. Point is we can control BOD if we are able to appoint or nominate majority of directors either because of law or contracts, even if shareholding is below 50% and thereby control whole company. This question specifies 10% holding but it is silent on how ALFA ltd controls BOD of GAMMA.**

QNO 438.000	**Permanent Consolidation Adjustment** **TITANIUM CNO—GA.220**	**Old Course – (M11R, M13E, M14R, N15E, M16R, N16M, SM17, PM17, SM21)**

Write a short note on - Permanent Consolidated Adjustments

Answer

- **Definition**

  Permanent consolidation adjustments are those adjustments that are made **only on the first occasion or subsequent occasions in which there is a change in the shareholding of a particular entity** which is consolidated. Permanent consolidation adjustments are:
  - Determination of **goodwill or capital reserve** as per applicable accounting standards.
  - Determination of amount of **equity attributable to minority/ no controlling interests**
- **Pre-acquisition Reserves**

  The auditor should verify that the above calculations have been made appropriately. The auditor

should pay particular attention to the determination **of pre-acquisition reserves of the components. Date(s) of investment** in components assumes importance in this regard. The auditor should also examine whether the pre-acquisition reserves have been **allocated appropriately between the parent and the minority interests/ non-controlling interests** of the subsidiary. The auditor should also verify the changes that might have taken place in these permanent consolidation adjustments on account of **subsequent acquisition of shares in the components, disposal of the components in the subsequent years.**

- Netting off of Goodwill & Capital Reserves
  It may happen that while working out the permanent consolidation adjustments, **in the case of one subsidiary, goodwill arises and in the case of another subsidiary a capital reserve arises.** The parent may **choose to net off these amounts to disclose a single amount** in the consolidated balance sheet where permitted by the applicable financial reporting framework. In such cases, the auditor should verify that the **gross amounts of goodwill and capital reserves arising on acquisition of various subsidiaries have been disclosed in the notes to the consolidated financial statements** to reflect the excess/shortage over the parents' portion of the subsidiary's equity

QNO 439.000	**Current Consolidation Adjustment** TITANIUM CNO— GA.240	**Old Course – (M09E, M11R, M14R, M14E, M16R, SM17, PM17, SM21, M21E)** **New Course – (SM23)**

While doing the audit of consolidated Financial Statements, which current period consolidation adjustments are to be taken into account?

Answer

- Current Period Consolidation Adjustments
  Current period adjustments are those adjustments that are made in the accounting period for which the consolidation of financial statements is done. Current period consolidation adjustments primarily relate to elimination of intra-group transactions and account balances. While doing the audit of consolidated Financial Statements, current period consolidation adjustments should be taken into account. The auditor should review the memorandum records to verify the adjustment entries made in the preparation of consolidated financial statements. This would also help the auditor in ascertaining whether there is any difference in the elimination. Following are the current period consolidation adjustments while making consolidation of financial statements:
  - (Intra group income / expense)-intra-group interest paid and received, or management fees, etc.;
  - *(Stock Reserve)- unrealised intra-group profits on assets acquired/ transferred from/ to other subsidiaries;*
  - (Intra group balances)- intra-group indebtedness;
  - (Harmonising accounting policy)-adjustments related to harmonising the different accounting policies being followed by the parent and its components;
  - *(Subsequent Events)-adjustments to the financial statements (of the parent and the components being consolidated) for recognized subsequent events or transactions that occur between the balance sheet date and the date of the auditor's report on the consolidated financial statements of the group.*
- *There are two types of subsequent events:*
  - *The first type of subsequent events consists of events or transactions that provide additional evidence about conditions that existed at the date of the financial statements, including the estimates inherent in the process of preparing financial statements (i.e. adjusting events).*
  - *The second type of subsequent events consist of events that provide evidence about conditions that did not exist at the date of the financial statements but arose subsequent to that date (i.e. non-adjusting events).*
- *Events occurring after balance sheet date which do not require adjustments would not normally require disclosure, although they may be of such significance that they may require a disclosure in the report of approving authority in the case of accounting standards and in the financial statements in case of Ind AS. For such events, the following shall be disclosed*
  - *The nature of the event; and*
  - *An estimate of its financial effect or a statement that such an estimate cannot be made*
  - *adjustments for the effects of significant transactions or other events that occur between the date of the components balance sheet and not already recognised in its financial statements and the date of the auditor's report on the group's consolidated financial statements when the financial statements of the component to be used for consolidation are not drawn up to the same balance sheet date as that of the parent;*
  - *(Foreign Component)-In case of a foreign component, adjustments to convert a component's audited financial statements prepared under the component's local GAAP to the GAAP under which the consolidated financial statements are prepared.*
  - *(Minority Interest) - determination of movement in equity attributable to the minorities interest/no controlling interest since the date of acquisition of the subsidiary.*
  - *(Deferred Tax)-adjustments of deferred tax on account of temporary differences arising out of elimination of profit and losses resulting from intra group transactions and undistributed profits of the component in case of consolidated financial statements prepared under In AS.*

QNO 439.010	**Harmonising Accounting Policies** UNIQUE	**Old Course – (M18E)**

H Co. Ltd. is a holding company with two subsidiaries R Co. Ltd., and S Co. Ltd., The H Co. Ltd., adopts straight line method of depreciation for its assets whereas S Co. Ltd., follows written down value or diminishing value method. Though R Co. Ltd. follows straight line method of depreciation, it does not give effect to component accounting of depreciation in respect of high value assets. While consolidating the financials of the R Co. Ltd., and S Co. Ltd., with those of H Co. Ltd., determine the possible issues that you have to ensure for compliance in the light of above facts

Answer

- When the Component(s) Auditor Reports on Financial Statements under an Accounting Framework is Different than that of the Parent:
  - A component may alternatively prepare financial statements on the basis of the parent's accounting policies, as outlined in the group accounting manual.
  - Group accounting manual would normally contain all accounting policies, including relevant disclosure requirements, which are consistent with the requirements of the financial reporting framework under which the group's consolidated financial statements are prepared. The local component auditor can then audit and issue an audit report on the components financial statements prepared in accordance with "group accounting policies".
  - When applying this approach of, the principal/parent auditors should perform procedures necessary to determine compliance of the group accounting policies with the GAAP applicable to the parent's financial statements.
- Ind-AS 8
  - It may be noted that change in the selection of the method of depreciation is an accounting estimate and not an accounting policy as per Ind-AS 8.
  - Accordingly, the entity should select the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.
  - That method should be applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits in separate financial statements as well as consolidated financial statements.

Therefore, there can be different methods for calculation of depreciation for its assets, if their expected pattern of consumption is different. The method once selected in the stand-alone financial statements of the subsidiary should not be changed while preparing the consolidated financial statements.

Case Discussion

- In the given case, assets of R Co. Ltd. (subsidiary company) is depreciated using straight line method, assets of S Co. Ltd. (subsidiary company) are depreciated using written down value

method and assets of parent company (H Co. Ltd.) are depreciated using straight line method, is in order. However, each part of an item of Property Plant and Equipment with a cost that is significant in relation to the total cost of the item should be depreciated separately under Component Method of Depreciation as per AS 10 on Property, Plant and Equipment.

Conclusion

- Thus, R Co. Ltd., though adopting straight line method but does not giving effect to component accounting of depreciation in respect of high value assets, is not in compliance with Ind AS 16/ Accounting Standard 10 Property Plan and Equipment.

QNO 440.000 **Responsibility of Parent & Permanent Consolidation Adjustment**
TITANIUM CNO— GA.060
Old Course – (N12E, M16M, SM17, PM17, N17M, N18M, SM21, N21R)

Briefly explain the responsibility of holding company for preparation of Consolidated Financial Statements.

Answer

- The responsibility for the preparation and presentation of consolidated financial statements, among other things, is that of the management of the parent. This includes:
  - **identifying components**, and
  - obtaining accurate and **complete financial information from components**; and
  - ***GAAP conversion,*** *where applicable.*
  - ***harmonization of accounting policies and accounting framework; and.***
  - **including the financial information** of the components to be included in the consolidated financial statements;
  - making appropriate **consolidation adjustments.**
  - where appropriate, identifying **reportable segments** for segmental reporting;
  - identifying **related parties and related party transactions** for reporting;
- Instructions to Component

  Apart from the above, the parent ordinarily issues instructions to the management of the component specifying the parent's requirements relating to financial information of the components to be included in the consolidated financial statements. The instructions ordinarily cover the accounting policies to be applied, statutory and other disclosure requirements applicable to the parent, including the identification of and reporting on reportable segments, and related parties and related party transactions, and a reporting timetable.

QNO 440.050 **Objective, as an Auditor, in the audit of Consolidated Financial Statement**
TITANIUM CNO— GA.080
Old Course – (M18E, N19R)

Deluxe Ltd. holds the ownership of 51% of voting power and control over Executive Ltd. Holding company have prepared the consolidated financial statement as required by Sec. 129 of the Companies Act, 2013. What will be your objective, as an Auditor, in the audit of such Consolidated Financial Statement?

Answer

Part I -- Relevant Standards & Laws

- **Section 129 (4) of the Companies Act, 2013**

Part II -- Requirements of Relevant Standards & Laws

- Objective of the Auditor in the audit of Consolidated Financial Statements

  As per section 129 (4) of the Companies Act, 2013 the auditor's objectives in an audit of consolidated financial statements are:

  - to satisfy himself that the consolidated financial statements have been prepared in accordance with the requirements of applicable financial reporting framework;
  - to enable himself to express an opinion on the true and fair view presented by the consolidated financial statements.
  - to enquire into the matters as specified in section 143(1) of the Companies Act, 2013;and.
  - to report on the matters given in the clauses (a) to (i) of section 143(3) of the Companies Act, 2013; for other matters under section 143(3)(j) read with rule 11 of the Companies (Audit and Auditors) Rules, 2014, to comment on the matters specified in sub-rule (a),(b) and (c), on the basis of auditors' report of the respective component to the extent applicable.
  - The auditor should also validate the requirement of preparation of CFS for the company as per applicable financial reporting framework.

QNO 442.000 **Relevance of SA 600-**
TITANIUM CNO— GA.120
Old Course – (N15E, N17R, N18E,M22E)
New Course -- (SM23)

CA H was appointed as a Statutory Auditor of MNL Limited, a listed company, which has three subsidiaries namely M Ltd., N Ltd., L Ltd. and also 15 branches across India. Auditors are duly appointed for the subsidiaries and branches as well. With regard to the determination of materiality during the audit of consolidated financial statements, what should be the considerations of CA H? How he should deal in his report if there are observations (for instance modification and/or emphasis of matter in accordance with SA 705/706) made by component auditors?

OR

Describe the relevance of SA 600 while auditing consolidation of Financial Statements

OR

What is meant by "Group financial statements"? Give reference of relevant Auditing Standard and issues addressed concerning the audit of Group financial statements.

OR

What is meant by "Group financial statements"? Give reference of relevant Auditing Standard and issues addressed concerning the audit of Group financial statements.

Answer

Part I -- Relevant Standards & Laws

- SA 600 "Using the work of Another Auditor"

Part II -- Requirements of Relevant Standards & Laws

- SA 600 and its relevance –

  Standard on Auditing **(SA) 600, 'Using the Work of Another Auditor' establishes standards when an auditor, reporting on the financial statements of an entity** (the group—in the case of consolidated financial statements), **uses the work of another auditor on the financial information of one or more components included in the financial statements of the entity.**

  The principal auditor, if he decides to use the work of another auditor in relation to the audit of consolidated financial statements, should comply with the requirements of SA 600.

- Determination of materiality during the audit of consolidated financial statements

  In carrying out the audit of the standalone financial statements, the computation of materiality for the purpose of issuing an opinion on the standalone financial statements of each component would be done component-wise on a standalone basis. However, with regard to determination of materiality during the audit of consolidated financial statements (CFS), the auditor should consider the following:

  - The auditor is required to compute the materiality for the group as a whole. This materiality should be used to assess the appropriateness of the consolidation adjustments (i.e. permanent consolidation adjustments and current period consolidation adjustments) that are made by the management in the preparation of CFS
  - The parent auditor can also use the materiality computed on the group level to determine whether the component's financial statements are material to the group to determine whether they should scope in additional components and consider using the work of other auditors as applicable.

  However, while considering the observations (for instance modification and /or emphasis of matter in accordance with SA 705/706) of the component auditor in his report on the standalone financial statements, the QNO of materiality would be considered.

  Thus, the component auditor's observation, if any, on the components financial statement, irrespective of whether the auditor of the component are also the auditor of CFS or not, are required to be included in the parent **audit report of Consolidated financial statement only if material for the group**.

Author's Note

⚠ **# Mistake point**

IMPORTANT – Recent Change in answer.

Last para of the answer has changed recently. Earlier in the answer provided by the institute, it was mentioned that while considering the observations of the component auditor in his report on the standalone financial statements, the concept of materiality would "not "be considered.

However, this was inconsistent with SA 600 which requires to consider the concept of materiality while giving observations in audit report of Consolidated financial statement.

The impact of including the word "not" was that, the component auditor's observation was mandatory to be included in audit report of Consolidated financial statement irrespective of whether the component was material or not.

Such inconsistency has been removed after removal of the word "not".

QNO 442.500	**Dealing with Modifications in Audit Report of Subsidiary** **TITANIUM CNO— GA.120**	**Old Course- (N22M)**

T Ltd. is holding 68% share of B Ltd, 51% share of C Ltd. RS & Co. Chartered Accountants are the statutory auditors of T Ltd. MN & Co. Chartered Accountants are the statutory auditors of B Ltd. and C Ltd. MN & Co have qualified the report of B Ltd. due to material discrepancies in standalone financial statement. While framing the opinion on Consolidated Financial Statement of T Ltd., RS & Co. (Principal Auditor) have ignored the qualification of B Ltd. considering it not material at Group Level. Comment.

Answer In carrying out the audit of the standalone financial statements, the computation of materiality for the purpose of issuing an opinion on the standalone financial statements of each component would be done component-wise on a standalone basis. However, with regard to determination of materiality during the audit of consolidated financial statements (CFS), the auditor should consider the following:

- The auditor is required to compute the materiality for the group as a whole. This materiality should be used to assess the appropriateness of the consolidation adjustments (i.e. permanent consolidation adjustments and current period consolidation adjustments)
- The parent auditor can also use the materiality computed on the group level to determine whether the component's financial statements are material to the group to determine whether they should scope in additional components, and consider using the work of other auditors as applicable.
- The principal auditor also computes materiality for each component and communicates to the component auditor, if he believes is required for true and fair view on CFS.
- The principal auditor also obtains certain confirmations from component auditor like independence, code of ethics, certain information required for consolidation and disclosure requirements etc.

However, while considering the observations (for instance modification and /or emphasis of matter in accordance with SA 705/706) of the component auditor in his report on the standalone financial statements, the principles of SA 600 needs to be considered., The parent auditor should comply with the requirements of SA 600, "Using the Work of Another Auditor". Therefore, the concept of materiality would be considered while considering the observations of the component auditor. Hence RS & Co. cannot ignore the qualification of B Ltd. while framing the opinion on consolidated financial statements of T Ltd.

QNO 442.600	**Management Representations in Consolidation** **TITANIUM CNO -- GA.320**	**New Course – (SM23)**

CA. Kajal Gupta is nearing completion of audit of consolidated financial statements of Rubic Paints and Chemicals Limited. She requires written representations from the parent's management on matters material to the consolidated financial statements. What specific matters such written representations can include?

Answer The auditor of the consolidated financial statements should obtain written representations from parent's management on matters material to the consolidated financial statements. Examples of such representations include:

(a) Completeness of components included in the consolidated financial statements;
(b) Identification of reportable segments for segment reporting
(c) Identification of related parties and related party transactions for reporting
(d) Appropriateness and completeness of permanent and current period consolidation adjustments,

including the elimination of intra-group transactions.

QNO 443.000	**Reporting** **TITANIUM CNO— GA.340**	**Old Course – (M17R, M17E, M18R, N18M, M18M, M20M, SM21, N21M, M22R, N23M)** **New Course – (SM23)**

You are appointed as an auditor of Nawab Limited, a listed company which is a main supplier to the UK building and construction market. With a turnover of 2.9 billion, the company operates through 11 business units and has nearly 180 branches across the countries. As an auditor, how will you draft the report in case:

(a) When the Parent's Auditor is also the Auditor of all its Components?
(b) When the Parent's Auditor is not the Auditor of all its Components?
(c) When the Component(s) Auditor Reports on Financial Statements under an Accounting Framework Different than that of the Parent?
(d) When the Component(s) Auditor Reports under an Auditing Framework Different than that of the Parent?
(e) Where the financial statements of one or more components is not audited

OR

C Ltd is holding 55% shares of D Ltd M/s AB & Associates are statutory auditors of C Ltd whereas for D Ltd there is another firm appointed as statutory auditors What are the reporting responsibilities of M/s AB & Associates for audit of consolidated financial statements?

Answer

(a) Parents auditor = Auditor of all Components	While drafting the audit report, the auditor should report whether Principles / procedures for preparation / presentation is as per accounting standard. In case of any departure or deviation, the auditor should make adequate disclosure in the audit report so that users of the consolidated financial statements are aware of such deviation. Auditor should issue an audit report expressing opinion whether the -consolidated financial statements, (at b/s date) -consolidated profit and loss statement (during the year) -cash flow (if prepared) give a true and fair view of the state of affairs of the Group.
(b) Parents Auditor not Same as component auditor	***The auditor of the CFS should consider the requirement of SA 600.*** ***As per SA 706-*** if the auditor considers it necessary to make reference to the audit of the other auditors i.e. considers it material, the auditor's report on the CFS should disclose clearly the magnitude of the portion of the financial statements audited by the other auditor(s). ***This may be done by stating in aggregate:*** Rs or % of total assets, revenues and cash flows of components included in the CFS not audited by the parent's auditor. Above should be presented before giving effect to permanent and current period consolidation adjustments. Reference in audit report of CFS that part of the audit of the group was made by other auditor(s) is not to be construed as a qualification of the opinion but rather as an indication of the divided responsibility between the auditors of the parent and its components.
(c) FRF of component is different from FRF of Parent	The parent may have components located outside India applying an accounting framework (GAAP) that is different than that of the parent in preparing its FST. When a component's FST are prepared under an accounting framework that is different than that of the framework used by the parent in preparing group's CFS , the parent's management perform a conversion of the components' audited FST from the framework used by the component to the framework under which the CFS are prepared. The conversion adjustments are audited by the principal auditor to ensure that the

	financial information of the component(s) is suitable and appropriate for the purposes of consolidation. A component may alternatively prepare financial statements on the basis of the parent's accounting policies, as outlined in the group accounting manual. Group accounting manual would normally contain all accounting policies, including relevant disclosure requirements, which are consistent with the requirements of the financial reporting framework under which the group's consolidated financial statements are prepared. The local component auditor can then audit and issue an audit report on the components financial statements prepared in accordance with "group accounting policies". When applying this approach of, the principal/parent auditors should perform procedures necessary to determine compliance of the group accounting policies with the GAAP applicable to the parent's financial statements. This ensures that the information will be directly usable and relevant for the preparation of CFS by the parent entity, eliminating the need for auditing by the auditor, the differences between the basis used for the component's financial statements and that of the consolidated financial statements. The Principal auditor can then decide whether or not to rely on the components' audit report and make reference to it in the auditor's report on the consolidated financial statements.
(d) Auditing Framework used by component auditor is different from parent's auditor	Audits of FST, including CFS, are performed under auditing standards generally accepted in India ("Indian GAAS"). In order to maintain consistency of the auditing framework and to enable the parent auditor to rely and refer to the other auditor's audit report in their audit report on the CFS, the components' FST should also be audited under a framework that corresponds to Indian GAAS.
(e) Financial Statements of component not audited.	Where the FST of one or more components continue to remain unaudited, the auditor reporting on the CFS should consider unaudited components in evaluating a possible modification to his report on the CFS. The auditor should evaluate both qualitative and quantitative factors on the possible effect of such amounts remaining unaudited when reporting on the consolidated financial statements using the guidance provided in SA 705, "Modifications to the Opinion in the Independent Auditor's Report".

★★★

QNO 443.020 | **Draft OMP For Subsidiaries Audited by Other Auditor** | **New Course – (SM23)**

TITANIUM CNO -- Unique

CA.MV Chitale is auditor of consolidated financial statements of "D and D Limited" for year 2022-23. The consolidated financial statements consist of financial statements and financial information of 8 subsidiaries audited by other auditors. Such financial statements, financial information and auditor's reports of subsidiaries have been furnished by management of the "D and D Limited" to him. Following further information is also available in respect of these 8 subsidiaries for year 2022-23: -

Total assets	**₹ 1500 crore**
Total revenues	**₹ 1000 crore**
Net cash outflows	**₹ 10 crore**

Two of these subsidiaries are located outside India whose financial statements have been prepared in accordance with accounting principles generally accepted in their respective countries and which have been audited by other auditors under generally accepted auditing standards applicable in their respective

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countries.

Where and how such information should be included in independent auditor's report on consolidated financial statements of company? Also draft a suitable para by making necessary assumptions.

SA600
SA706

Answer In a case where the parent's auditor is not the auditor of all the components included in the consolidated financial statements, then as prescribed in SA 706, if the auditor considers it necessary to make reference to the audit of the other auditors, the auditor's report on the consolidated financial statements should disclose clearly the magnitude of the portion of the financial statements audited by the other auditors. This may be done by stating aggregate rupee amounts or percentages of total assets, revenues and cash flows of components included in the consolidated financial statements not audited by the parent's auditor.

It should be included in Other Matter paragraph of independent auditor's report. The draft "Other Matter Paragraph" is as under: -

Other Matter Paragraph

8 Sub

We did not audit the financial statements and other financial information, in respect of eight (8) subsidiaries, whose financial statements include total assets of Rs.1500 crores as at March 31, 2023, and total revenues of Rs.1,000 crores and net cash outflow of Rs. 10 crores for the year ended on that date. These financial statements and other financial information have been audited by other auditors and such financial statements, other financial information and auditor's reports have been furnished to us by the management of the Holding Company.

Our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries and joint ventures, and our report in terms of sub-sections (3) of Section 143 of the Act, in so far as it relates to the aforesaid subsidiaries is based solely on the reports of such other auditors.

2 Sub

Two of these subsidiaries are located outside India whose financial statements and other financial information have been prepared in accordance with accounting principles generally accepted in their respective countries and which have been audited by other auditors under generally accepted auditing standards applicable in their respective countries. The Holding Company's management has converted the financial statements of such subsidiaries from accounting principles generally accepted in their respective countries to accounting principles generally accepted in India.

We have audited these conversion adjustments made by the Holding Company's management. Our opinion in so far as it relates to the balances and affairs of such subsidiaries is based on the report of other auditors and the conversion adjustments prepared by the management of the Holding Company and audited by us. Our opinion on the consolidated financial statements, and our report on Other Legal and Regulatory Requirements 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 and other financial information certified by the Management.

QNO 443.050 | **Checking Completeness of the components in consolidation** | **Old Course – (N20E, N21M, M23R) New Course – (SM23)**

TITANIUM CNO— GA.140

CA. Vimal is the auditor of Excellent Ltd., a parent company which presents Consolidated Financial Statements. The management of Excellent Ltd. has provided the list of the components included in the Consolidated Financial Statements. As an auditor of Consolidated Financial Statements, CA Vimal has to verify that all the components have been included in the Consolidated Financial Statements and review the information provided by the management in identifying the components. State the procedures to be followed by CA. Vimal in respect of completeness of this information.

Answer A parent which presents consolidated financial statements is required to consolidate all its components in the consolidated financial statements other than those for which exceptions have been provided in the relevant accounting standards under the applicable financial reporting framework.

The auditor should obtain a listing of all the components included in the consolidated financial statements and review the information provided by the management of the parent identifying the components. The auditor should verify that all the components have been included in the

consolidated financial statements unless these components meet criterion for exclusion.

In the given case, Excellent Ltd has provided the list of components included in the consolidated financial statements (CFSs). CA Vimal shall verify that all the components have been included in the CFSs.

Further, in respect of completeness of this information, CA Vimal should perform the following procedures:

i. review his working papers for the prior years for the known components;
ii. review the parent's procedures for identification of various components;
iii. make inquiries of the management to identify any new components or any component which goes out of consolidated financial statements;
iv. review the investments of parent as well as its components to determine the shareholding in other entities;
v. review the joint ventures and joint arrangements as applicable;
vi. review the other arrangements entered into by the parent that have not been included in the consolidated financial statements of the group;
vii. review the statutory records maintained by the parent, for example registers under section 186, 190 of the Companies Act, 2013;
viii. Identify the changes in the shareholding that might have taken place during the reporting period.

QNO 443.060	**Including only Relevant Notes to accounts of Standalone FST in Consolidated FST** TITANIUM CNO— GA.300	**Old Course – (N22E)**

ABC Limited holds 51% equity of BBB Limited, 63% equity of TTT Limited. There are different information and explanations which are disclosed by the respective companies in the notes to their financial statements. At the time of consolidation, management of ABC Limited has consolidated all the information and explanations disclosed in the notes as well. The principal auditor is of the view that only those information and explanations should form part of the notes to the consolidated financial statements which are relevant at group level. Please mention any five aspects which are given in the notes to the separate financial statements of the parent and the subsidiaries, need not be included in the consolidated financial statements.

The Ind AS 110 does not give a list of information which is part of the separate financial statement of the components but that need not be reported in the notes and other explanatory material of the consolidated financial statements, however, based on section 129(4) and circular issued by MCA, it can be construed that, even in consolidated financial statements under Ind AS, only those disclosures should be given which are relevant to consolidated financial statements.

Based on the above discussion, in case of companies, the information such as the following given in the notes to the separate financial statements of the parent and/or the subsidiary, need not be included in the consolidated financial statements.

i Source from which bonus shares are issued, e.g., capitalization of profits or reserves or from securities premium account.

ii Disclosure of all unutilized monies out of the issue indicating the form in which such unutilized funds have been invested.

iii Disclosure required under Micro, Small and Medium Enterprises Development Act, 2006.

iv A statement of investments (whether shown under "financial assets or non-financial assets as stock-in-trade) separately classifying trade investments and other investments, showing the names of the bodies corporate (indicating separately the names of the bodies corporate under the same management) in whose shares or debentures, investments have been made (including all investments, whether existing or not, made subsequent to the date as at which the previous balance sheet was made out) and the nature and extent of the investment so made in each such body corporate.

v Value of imports calculated on C.I.F. basis by the company during the financial year in respect of:
  a) raw materials;
  b) components and spare parts;
  c) capital goods.

vi Expenditure in foreign currency during the financial year on account of royalty, know-how, professional and consultation fees, interest, and other matters.

vii Value of all imported raw materials, spare parts and components consumed during the financial year and the value of all indigenous raw materials, spare parts and components similarly consumed and the percentage of each to the total consumption.

viii The amount remitted during the year in foreign currencies on account of dividends, with a specific mention of the number of non-resident shareholders, the number of shares held by them on which the dividends were due and the year to which the dividends related.

ix Earnings in foreign exchange classified under the following heads, namely:
  a. export of goods calculated on F.O.B. basis;
  b. royalty, know-how, professional and consultation fees;
  c. interest and dividend;
  d. other income, indicating the nature thereof.

QNO 444.000	**(Losses in Subsidiary) AS ~~21~~ 13** Unique	**Old Course – (M09R, M13E, M16M, SM17, PM17 SM21 M23M)**

K Ltd. had 5 subsidiaries as at 31st March 2015 and the investments in-subsidiaries are considered as long term and valued at cost. Two of the subsidiaries net worth eroded as at 31st March 15 and the prospects of their recovery are very bleak and the other three subsidiaries are doing exceptionally well. The company did not provide for the decline in the value of investments in two subsidiaries because the overall investment portfolio in subsidiaries did not suffer any decline' as the other three subsidiaries are doing exceptionally well. Comment.

Answer

Part I -- Relevant Standards & Laws

AS-13 - Accounting for Investments

Part II -- Requirements of Relevant Standards & law Consolidated

- As per AS-13 "Accounting for Investments" issued by the Institute of Chartered Accountants of India, long-term investments are usually of individual importance to the investing enterprise. The carrying amount of long-term investments is therefore determined on an individual investment basis. Investments classified as long-term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognize a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually.

Part III – Case Discussion

- K Ltd. had 5 subsidiaries as at 31st March 2015 and the investments in-subsidiaries are considered as long term and valued at cost. Two of the subsidiaries net worth eroded as at 31st March 15 and the prospects of their recovery are very bleak and the other three subsidiaries are doing exceptionally well. The company did not provide for the decline in the value of investments in two subsidiaries because the overall investment portfolio in subsidiaries did not suffer any decline' as the other three subsidiaries are doing exceptionally well. Comment

Part IV – Conclusion

- Keeping in view the above, K Ltd should provide for the decline in the value of investments in two subsidiaries despite the fact that the overall investment portfolio in subsidiaries did not suffer any decline.