CONSOLIDATION OF ACCOUNTS IN A SECTION 8 HOLDING COMPANY

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1. INTRODUCTION

1.1 Under section 129(3) of the Companies Act, 2013 it is mandatory to prepare consolidated financial statements in addition to Standalone Financial Statements b('SFS'), in case where the company has one or more subsidiaries. In other words, the holding company is required to incorporate the financial statements of all its subsidiaries and prepare consolidated financial statements.

1.2 A Section 8 company (a company registered as a not for profit charity) can also have subsidiary companies. It is not clear whether the section 8 holding company is also required to prepare consolidated financial statements. The common understanding is that the same procedure will also apply to the section 8 company. However, on careful analysis of the statute and the applicable Accounting Standards it seems that where one section 8 company is the holding company of another section 8 company, the requirement of consolidation of financial statements shall not apply, which is discussed in this issue.

2. THE ASSETS OR INCOME CANNOT REVERT TO THE MEMBERS OF SECTION 8 COMPANIES

2.1 Section 8 companies are formed with charitable objects and the profits of a subsidiary cannot be distributed back to the members including a holding company. Section 8 companies are formed without profit motive. However if there is any profit/surplus, then such profit/surplus shall be applied in promoting its objects.

2.2 At the time of winding up or dissolution, surplus assets, if any, shall be transferred to another company registered under Section 8 having similar objects.

2.3 In case of conversion of a Section 8 company into any other kind of company (except a One Person Company), the Board of directors are required to give a declaration to the effect that no portion of the income or property of the company has been or shall be paid or transferred directly or indirectly by way of dividend or bonus or otherwise to persons who are or have been members of the company or to any one or more of them or to any persons claiming through any one or more of them [Rule 22(4) of Companies (Incorporation) Rules, 2014].

3. UNDERSTANDING SECTION 129 OF THE COMPANIES ACT, 2013

3.1 A holding company of a Section 8 company is not entitled to any share in profits or income of its subsidiary. One of the primary purpose of consolidation is to reflect the correct picture of the value of investment in the subsidiary company. If the value of shares in subsidiary company is reflected through consolidation of the assets and liabilities, then it will show an incorrect picture of the net worth of the holding company as it cannot claim anything from the subsidiary. Further the investment in a section 8 company should be shown as application of income and technically should not remain as investment in the balance sheet.

3.2 When we consolidate the holding company with a Section 8 company, it will however depict a wrong picture of the wealth of the holding company, as the holding company can never claim any right over the profits of a Section 8 Company. Therefore, the question of consolidation does not arise.

3.3 Section 129 mandates preparation of CFS in accordance with applicable accounting standards as is evident from the sub section (1) of section 129, as reproduced below:

"(1) The financial statements shall give a true and fair view of the state of affairs of the company or companies, comply with the accounting standards notified under section 133 and shall be in the form or forms as may be provided for different class or classes of companies in Schedule III:

Provided that the items contained in such financial statements shall be in accordance with the accounting standards."

Therefore the provisions of applicable Accounting Standards have to be read with section 129 of the Companies Act 2013.

4. UNDERSTANDING ACCOUNTING STANDARD 21 ISSUED UNDER COMPANIES RULES

4.1 Accounting Standards issued by Companies (Accounting Standards) Rules, 2006 under the erstwhile Companies Act, 1956 are applicable to companies which are not covered under IND AS. It may be noted that Rule 4 of the Companies (Indian Accounting Standards) Rules 2015 makes IND AS mandatory only for certain large corporates. For all other companies the provisions of AS 21 shall apply. The applicability of AS 21 on consolidation of a Section 8 subsidiary, the following is relevant:

4.2 AS 21 clearly states, "This Standard should be applied in the preparation and presentation of consolidated financial statements for a group of enterprises under the control of a parent."

4.3 The requirement of consolidation is dependent on the control of the holding company as per the criteria provided in the standard.

4.4 In the scope of the AS 21 it has been clarified when control does not yield any economic benefit then AS 21 is not intended to apply to such entities. The relevant extract from AS 21 is as under:

"Control exists when the parent owns, directly or indirectly through subsidiary (ies), more than one-half of the voting power of an enterprise. Control also exists when an enterprise controls the composition of the board of directors (in the case of a company) or of the corresponding governing body (in case of an enterprise not being a company) so as to obtain economic benefits from its activities. An enterprise may control the composition of the governing bodies of entities such as gratuity trust, provident fund trust etc. Since the objective of control over such entities is not to obtain economic benefits from their activities, these are not considered for the purpose of preparation of consolidated financial statements."

4.5 This scope of AS 21 as defined by the Institute of Chartered Accountants of India clearly excludes the control over those entities from were economic benefit are not permissible. The same rationale shall apply to charitable trust and companies also.

4.6 Further under para 11 of the AS 21 it is again clarified that the consolidation shall not be necessary if there are permanent restrictions on the subsidiary regarding transfer of profits to the holding company. The exceptions as provided in AS 21 are as under:

11. A subsidiary should be excluded from consolidation when:

– control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future; or

– it operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent.

4.7 In consolidated financial statements, investments in such subsidiaries should be accounted for in accordance with Accounting Standard (AS) 13, Accounting for Investments. The reasons for not consolidating a subsidiary should be disclosed in the consolidated financial statements In the light of the above it is clear that consolidation of accounts shall not be necessary in case of section 8 company. The text of AS 21 is provided in Annexure.

5. APPLICABILITY OF IND AS110

5.1 The Ind AS 110 as may be applicable to companies also specifically defines the term control for the purposes of consolidation of accounts. The term control as per Ind AS 110 is as under:

– An investor, regardless of the nature of its involvement with an entity (the investee), shall determine whether it is a parent by assessing whether it controls the investee.

– An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

– Thus, an investor controls an investee if and only if the investor has all the following:

a. power over the investee (see paragraphs 10–14);

b. exposure, or rights, to variable returns from its involvement with the investee (see paragraphs 15 and 16); and

c. the ability to use its power over the investee to affect the amount of the investor's returns (see paragraphs 17 and 18).

d. As provided above under para 7 all the three conditions should be satisfied in order to establish that the investor controls the investee. The condition 7(b) and 7(c) relate to the exposure to return on investment and the ability to affect the amount of the investor's returns. Both these conditions do not apply to a section 8 company.

6. CONCLUDING REMARKS

6.1 It can be seen that the statutory requirements for consolidation are primarily with the intent of providing a true and fair view of the investment of the holding company in its subsidiaries. However in case of section 8 companies, there is no question of investing and change in value of investment as the promotors and share holders cannot claim the amount invested in the shares of a section 8 company. Any amount contributed to a section 8 company is an irrevocable legal obligation for public charitable purposes.

6.2 Therefore in the light of above analysis, in our opinion it is not necessary to consolidate the financial statements of a section 8 company which is the holding company of another subsidiary section 8 company.

Annexure-1

TEXT OF SECTION 129 COMPANIES ACT 2013
FINANCIAL STATEMENT

129. (1) The financial statements shall give a true and fair view of the state of affairs of the company or companies, comply with the accounting standards notified under section 133 and shall be in the form or forms as may be provided for different class or classes of companies in Schedule III:

Provided that the items contained in such financial statements shall be in accordance with the accounting standards:

Provided further that nothing contained in this sub-section shall apply to any insurance or banking company or any company engaged in the generation or supply of electricity, or to any other class of company for which a form of financial statement has been specified in or under the Act governing such class of company:

Provided also that the financial statements shall not be treated as not disclosing a true and fair view of the state of affairs of the company, merely by reason of the fact that they do not disclose—

a. in the case of an insurance company, any matters which are not required to be disclosed by the Insurance Act, 1938 (4 of 1938), or the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999);

b. in the case of a banking company, any matters which are not required to be disclosed by the Banking Regulation Act, 1949 (10 of 1949);

c. in the case of a company engaged in the generation or supply of electricity, any matters which are not required to be disclosed by the Electricity Act, 2003 (36 of 2003);

d. in the case of a company governed by any other law for the time being in force, any matters which are not required to be disclosed by that law.

1. At every annual general meeting of a company, the Board of Directors of the company shall lay before such meeting financial statements for the financial year.

2. Where a company has one or more subsidiaries, it shall, in addition to financial statements provided under sub-section (2), prepare a consolidated financial statement of the company and of all the subsidiaries in the same form and manner as that of its own which shall also be laid before the annual general meeting of the company along with the laying of its financial statement under sub-section (2):

Provided that the company shall also attach along with its financial statement, a separate statement containing the salient features of the financial statement of its subsidiary or subsidiaries in such form as may be prescribed 17:

Provided further that the Central Government may provide for the consolidation of accounts of companies in such manner, as may be prescribed18.

Explanation —For the purposes of this sub-section, the word "subsidiary" shall include associate company and joint venture.

3. The provisions of this Act applicable to the preparation, adoption and audit of the financial statements of a holding company shall, mutatis mutandis, apply to the consolidated financial statements referred to in sub-section (3).

4. Without prejudice to sub-section (1), where the financial statements of a company do not comply with the accounting standards referred to in subsection (1), the company shall disclose in its financial statements, the deviation from the accounting standards, the reasons for such deviation and the financial effects, if any, arising out of such deviation.

5. The Central Government may, on its own or on an application by a class or classes of companies, by notification19, exempt any class or classes of companies from complying with any of the requirements of this section or the rules made thereunder, if it is considered necessary to grant such exemption in the public interest and any such exemption may be granted either unconditionally or subject to such conditions as may be specified in the notification.

6. If a company contravenes the provisions of this section, the managing director, the whole-time director in charge of finance, the Chief Financial Officer or any other person charged by the Board with the duty of complying with the requirements of this section and in the absence of any of the officers mentioned above, all the directors shall be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees, or with both.

Explanation —For the purposes of this section, except where the context otherwise requires, any reference to the financial statement shall include any notes annexed to or forming part of such financial statement, giving information required to be given and allowed to be given in the form of such notes under this Act.

ACCOUNTING STANDARD (AS) 21 (ISSUED 2001)

Consolidated Financial Statements

[This Accounting Standard includes paragraphs set in bold italic type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective, the Preface to the Statements of Accounting Standards2 and the 'Applicability of Accounting Standards to Various Entities' (See Appendix 1 to this Compendium).]

Objective

The objective of this Standard is to lay down principles and procedures for preparation and presentation of consolidated financial statements. Consolidated financial statements are presented by a parent (also known as holding enterprise) to provide financial information about the economic activities of its group. These statements are intended to present financial information about a parent and its subsidiary(ies) as a single economic entity to show the economic resources controlled by the group, the obligations of the group and results the group achieves with its resources.

Scope

1. This Standard should be applied in the preparation and presentation of consolidated financial statements for a group of enterprises under the control of a parent.

2. This Standard should also be applied in accounting for investments in subsidiaries in the separate financial statements of a parent.

3. In the preparation of consolidated financial statements, other Accounting Standards also apply in the same manner as they apply to the separate financial statements.

4. This Standard does not deal with:

a) methods of accounting for amalgamations and their effects on consolidation, including goodwill arising on amalgamation (see AS 14, Accounting for Amalgamations);

b) accounting for investments in associates (at present governed by AS 13, Accounting for Investments3); and

c) accounting for investments in joint ventures (at present governed by AS 13, Accounting for Investments4).

Definitions

5. For the purpose of this Standard, the following terms are used with the meanings specified:

5.1 Control:

– the ownership, directly or indirectly through subsidiary(ies), of more than one-half of the voting power of an enterprise; or

– control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise so as to obtain economic benefits from its activities.

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

5.3 A parent is an enterprise that has one or more subsidiaries.

5.4 A group is a parent and all its subsidiaries.

5.5 Consolidated financial statements are the financial statements of a group presented as those of a single enterprise.

5.6 Equity is the residual interest in the assets of an enterprise after deducting all its liabilities.

5.7 Minority interest is that part of the net results of operations and of the net assets of a subsidiary attributable to interests, which are not owned, directly or indirectly through subsidiary (ies), by the parent.

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

Explanation:

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

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

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

– Additional statutory information disclosed in separate financial statements of the subsidiary and/or a parent having no bearing on the true and fair view of the consolidated financial statements need not be disclosed in the consolidated financial statements. An illustration of such information in the case of companies is attached to the Standard.

Presentation of Consolidated Financial Statements

7. A parent which presents consolidated financial statements should present these statements in addition to its separate financial statements.

8. Users of the financial statements of a parent are usually concerned with, and need to be informed about, the financial position and results of operations of not only the enterprise itself but also of the group as a whole.

This need is served by providing the users

– separate financial statements of the parent; and

– consolidated financial statements, which present financial information about the group as that of a single enterprise without regard to the legal boundaries of the separate legal entities.

Scope of Consolidated Financial Statements

9. A parent which presents consolidated financial statements should consolidate all subsidiaries, domestic as well as foreign, other than those referred to in paragraph 11.

10. The consolidated financial statements are prepared on the basis of financial statements of parent and all enterprises that are controlled by the parent, other than those subsidiaries excluded for the reasons set out in paragraph 11. Control exists when the parent owns, directly or indirectly through subsidiary(ies), more than one-half of the voting power of an enterprise. Control also exists when an enterprise controls the composition of the board of directors (in the case of a company) or of the corresponding governing body (in case of an enterprise not being a company) so as to obtain economic benefits from its activities. An enterprise may control the composition of the governing bodies of entities such as gratuity trust, provident fund trust etc. Since the objective of control over such entities is not to obtain economic benefits from their activities, these are not considered for the purpose of preparation of consolidated financial statements. For the purpose of this Standard, an enterprise is considered to control the composition of:

– the board of directors of a company, if it has the power, without the consent or concurrence of any other person, to appoint or remove all or a majority of directors of that company. An enterprise is deemed to have the power to appoint a director, if any of the following conditions is satisfied:

  a. a person cannot be appointed as director without the exercise in his favour by that enterprise of such a power as aforesaid; or

  b. a person's appointment as director follows necessarily from his appointment to a position held by him in that enterprise; or

  c. the director is nominated by that enterprise or a subsidiary thereof.

– the governing body of an enterprise that is not a company, if it has the power, without the consent or the concurrence of any other person, to appoint or remove all majority of members of the governing body of that other enterprise. An enterprise is deemed to have the power to appoint a member, if any of the following conditions is satisfied:

  a. a person cannot be appointed as member of the governing body without the exercise in his favour by that other enterprise of such a power as aforesaid; or

  b. a person's appointment as member of the governing body follows necessarily from his appointment to a position held by him in that other enterprise; or

  c. the member of the governing body is nominated by that other enterprise.

Explanation:

It is possible that an enterprise is controlled by two enterprises — one controls by virtue of ownership of majority of the voting power of that enterprise and other controls, by virtue of an agreement or otherwise, the composition of the board of directors so as to obtain economic benefit from its activities. In such a rare situation, when an enterprise is controlled by two enterprises as per the definition of 'control', the first mentioned enterprise will be considered as subsidiary of both the controlling enterprises within the meaning of this Standard and, therefore, both the enterprises need to consolidate the financial statements of that enterprise as per the requirements of this Standard.

11. A subsidiary should be excluded from consolidation when:

– control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future; or

– it operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent. In consolidated financial statements, investments in such subsidiaries should be accounted for in accordance with Accounting Standard (AS) 13, Accounting for Investments. The reasons for not consolidating a subsidiary should be disclosed in the consolidated financial statements.

Explanation:

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

b. The period of time, which is considered as near future for the purposes of this Standard primarily depends on the facts and circumstances of each case. However, ordinarily, the meaning of the words 'near future' is considered as not more than twelve months from acquisition of relevant investments unless a longer period can be justified on the basis of facts and circumstances of the case. The intention with regard to disposal of the relevant investment is considered at the time of acquisition of the investment. Accordingly, if the relevant investment is acquired without an intention to its subsequent disposal in near future, and subsequently, it is decided to dispose off the investments, such an investment is not excluded from consolidation, until the investment is actually disposed off. Conversely, if the relevant investment is acquired with an intention to its subsequent disposal in near future, but, due to some valid reasons, it could not be disposed off within that period, the same will continue to be excluded from consolidation, provided there is no change in the intention.

12. Exclusion of a subsidiary from consolidation on the ground that its business activities are dissimilar from those of the other enterprises within the group is not justified because better information is provided by consolidating such subsidiaries and disclosing additional information in the consolidated financial statements about the different business activities of subsidiaries. For example, the disclosures required by Accounting Standard (AS) 17, Segment Reporting, help to explain the significance of different business activities within the group.

Consolidation Procedures

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

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

– any excess of the cost to the parent of its investment in a subsidiary over the parent's portion of equity of the subsidiary, at the date on which investment in the subsidiary is made, should be described as goodwill to be recognised as an asset in the consolidated financial statements;

- when the cost to the parent of its investment in a subsidiary is less than the parent's portion of equity of the subsidiary, at the date on which investment in the subsidiary is made, the difference should be treated as a capital reserve in the consolidated financial statements;
- minority interests in the net income of consolidated subsidiaries for the reporting period should be identified and adjusted against the income of the group in order to arrive at the net income attributable to the owners of the parent; and
- minority interests in the net assets of consolidated subsidiaries should be identified and presented in the consolidated balance sheet separately from liabilities and the equity of the parent's shareholders Minority interests in the net assets consist of:

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

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

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

Explanation:

- The tax expense (comprising current tax and deferred tax) to be shown in the consolidated financial statements should be the aggregate of the amounts of tax expense appearing in the separate financial statements of the parent and its subsidiaries.
- The parent's share in the post-acquisition reserves of a subsidiary, forming part of the corresponding reserves in the consolidated balance sheet, is not required to be disclosed separately in the consolidated balance sheet keeping in view the objective of consolidated financial statements to present financial information of the group as a whole. In view of this, the consolidated reserves disclosed in the consolidated balance sheet are inclusive of the parent's share in the post-acquisition reserves of a subsidiary.

14. The parent's portion of equity in a subsidiary, at the date on which investment is made, is determined on the basis of information contained in the financial statements of the subsidiary as on the date of investment. However, if thefinancial statements of a subsidiary, as on the date of investment, are not available and if it is impracticable to draw the financial statements of the subsidiary as on that date, financial statements of the subsidiary for the immediately preceding period are used as a basis for consolidation. Adjustments are made to these financial statements for the effects of significant transactions or other events that occur between the date of such financial statements and the date of investment in the subsidiary.

15. If an enterprise makes two or more investments in another enterprise at different dates and eventually obtains control of the other enterprise, the consolidated financial statements are presented only from the date on which holding-subsidiary relationship comes in existence. If two or more investments are made over a period of time, the equity of the subsidiary at the date of investment, for the purposes of paragraph 13 above, is generally determined on a step-by-step basis; however, if small investments are made over a period of time and then an investment is made that results in control, the date of the latest investment, as a practicable measure, may be considered as the date of investment.

16. Intragroup balances and intragroup transactions and resulting unrealised profits should be eliminated in full. Unrealised losses resulting from intragroup transactions should also be eliminated unless cost cannot be recovered.

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

18. The financial statements used in the consolidation should be drawn up to the same reporting date. If it is not practicable to draw up the financial statements of one or more subsidiaries to such date and, accordingly, those financial statements are drawn up to different reporting dates, adjustments should be made for the effects of significant transactions or other events that occur between those dates and the date of the parent's financial statements. In any case, the difference between reporting dates should not be more than six months.

19. The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements are usually drawn up to the same date. When the reporting dates are different, the subsidiary often prepares, for consolidation purposes, statements as at the same date as that of the parent. When it is impracticable to do this, financial statements drawn up to different reporting dates may be used provided the difference in reporting dates is not more than six months. The consistency principle requires that the length of the reporting periods and any difference in the reporting dates should be the same from period to period.

20. Consolidated financial statements should be prepared using uniform accounting policies for like transactions and other events in similar circumstances. If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.

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

22. The results of operations of a subsidiary are included in the consolidated financial statements as from the date on which parent-subsidiary relationship came in existence. The results of operations of a subsidiary with which parent-subsidiary relationship ceases to exist are included in the consolidated statement of profit and loss until the date of cessation of the relationship. The difference between the proceeds from the disposal of investment in a subsidiary and the carrying amount of its assets less liabilities as of the date of disposal is recognised in the consolidated statement of profit and loss as the profit or loss on the disposal of the investment in the subsidiary. In order to ensure the comparability of the financial statements from one accounting period to the next, supplementary information is often provided about the effect of the acquisition and disposal of subsidiaries on the financial position at the reporting date and the results for the reporting period and on the corresponding amounts for the preceding period.

23. An investment in an enterprise should be accounted for in accordance with Accounting Standard (AS) 13, Accounting for Investments, from the date that the enterprise ceases to be a subsidiary and does not become an associate.

24. The carrying amount of the investment at the date that it ceases to be a subsidiary is regarded as cost thereafter.

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

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

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

Accounting for Investments in Subsidiaries in a Parent's Separate Financial Statements

28. In a parent's separate financial statements, investments in subsidiaries should be accounted for in accordance with Accounting Standard (AS) 13, Accounting for Investments.

Disclosure

29. In addition to disclosures required by paragraph 11 and 20, following disclosures should be made:

- in consolidated financial statements a list of all subsidiaries including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held;
- in consolidated financial statements, where applicable:
  - i. the nature of the relationship between the parent and a subsidiary, if the parent does not own, directly or indirectly through subsidiaries, more than one-half of the voting power of the subsidiary;
  - ii. the effect of the acquisition and disposal of subsidiaries on the financial position at the reporting date, the results for the reporting period and on the corresponding amounts for the preceding period; and
  - iii. the names of the subsidiary(ies) of which reporting date(s) is/ are different from that of the parent and the difference in reporting dates.

Transitional Provisions

30. On the first occasion that consolidated financial statements are presented, comparative figures for the previous period need not be presented. In all subsequent years full comparative figures for the previous period should be presented in the consolidated financial statements.

In the 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:

- Source from which bonus shares are issued, e.g., capitalization of profits or Reserves or from Share Premium Account.
- Disclosure of all unutilised monies out of the issue indicating the form in which such unutilised funds have been invested.

- The name(s) of small scale industrial undertaking(s) to whom the company owe any sum together with interest outstanding for more than thirty days.
- A statement of investments (whether shown under "Investment" or under "Current 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.
- Quantitative information in respect of sales, raw materials consumed, opening and closing stocks of goods produced/traded and purchases made, wherever applicable.
- A statement showing the computation of net profits in accordance with section 349 of the Companies Act, 1956, with relevant details of the calculation of the commissions payable by way of percentage of such profits to the directors (including managing directors) or manager (if any).
- In the case of manufacturing companies, quantitative information in regard to the licensed capacity (where licence is in force); the installed capacity; and the actual production.
- 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.
- Expenditure in foreign currency during the financial year on account of royalty, know-how, professional, consultation fees, interest, and other matters.
- 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.
- 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.
- 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.