

Article

Companies (Accounts) Amendment Rules, 2014



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The Ministry of Corporate Affairs (**MCA**) has vide notification dated October 14, 2014¹ amended the Companies (Accounts) Rules, 2014 (**Amended Rules**). Section 129 (3) read with Rule 6 of the Companies (Accounts) Rules, 2014 (**Rules**) provides manner of consolidation pursuant to Schedule III of the Companies Act, 2013 (**Act**) and the applicable accounting standards. The amended Rules seemingly exempt a company not having subsidiaries from consolidation requirement but having associates or joint ventures (**JVs**). Below we analyse whether the Rules simplify or further strangle the provisions.

The Amendment

Second proviso added provides: *“provided further that nothing in this Rule shall not apply in case of consolidation by intermediary wholly owned subsidiary other than a wholly owned subsidiary whose immediate parent is a company incorporated outside India.”*

Third proviso provides: *“provided also that nothing in this Rule shall, subject to any other law or regulation apply for the financial year commencing from 1st day of April 2014 and ending of 31st March 2015, in case of a company which does not have subsidiary or subsidiaries but has one or more associate companies or joint ventures or both, for the consolidation of financial statement in respect of associate or JVs or both, as the case may be.”*

Consolidation requirements

Accounting Standard 23 (AS 23) provides for consolidation of financial statements in case of associates and Accounting Standard 27 (AS 27) provides for consolidation of financial statements in case of joint venture. In case of associates equity method of accounting is to be followed which is ofcourse not a full scale consolidation. Further, this is done to know the effects of the investments in associates on the financial position and operating results of a **group**. The investor records the investment at cost after identifying any goodwill/capital reserve arising at the time of acquisition. Adjustments to the carrying amount of investment in the investee company arising from changes in the investee's equity, not been included in the statement of profit and loss of the investee are directly made in the carrying amount of investment without routing it through the consolidated statement of profit and loss. However, the equity method is not applied when the investment made is only for the purpose of disposal in the near future.

¹ http://www.mca.gov.in/Ministry/pdf/Amendment_Rules_14102014_I.pdf



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Therefore, the consolidated financial statements under AS 21 are the financial statements of a group presented as those of a single enterprise

In case of JVs consolidation is required only in case of those JVs which maintain separate books of accounts wherein reporting is made of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors by way of proportionate consolidation. Under the proportionate consolidation the consolidated balance sheet of the venturer includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible. Likewise, the consolidated statement of profit and loss of the venturer includes its share of the income and expenses of the jointly controlled entity.

Accounting Standard 21 (AS 21) provides for consolidation of financial statements in case of subsidiaries. It defines a subsidiary as *“an enterprise that is controlled by another enterprise (known as the parent)”*. Therefore, a subsidiary can be even a body corporate. Parent is defined as *“an enterprise that has one or more subsidiaries.”*

Para 10 of AS 21 provides consolidation of financial statements by a parent when it exercises control over the subsidiary as per the meaning of control under the Standard. Para 11 exempts the parent from consolidation requirements in the event when control is temporary. Control for the purpose of said AS includes management control and shareholding control. Therefore, in case of consolidation of subsidiary accounts there is a line by line consolidation unlike in case of associate and joint ventures.

Section 129 (2) includes associates and joint ventures within the meaning of subsidiary but that is not envisaged by the Accounting Standard. Therefore, there was already a confusion lying before all. The definition of associate as provided under AS 23 clearly excludes a subsidiary. Joint venture as known is a contractual agreement for sharing of control. Therefore, very evident that consolidation requirement will vary and it cannot be line by line item as in case of subsidiaries but only proportionate consolidation in case of JVs.

Critical view

Besides exempting consolidation in case of intermediary holding companies, the Rules seem to say that for FY 14-15, consolidation will not be required in case of those companies which have associates, but which do not have subsidiaries. It is a misconception that the Act requires consolidation in case of those companies which do not have subsidiaries but have associates.



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Very true that the definition of “subsidiary” for sec 129 (3) includes associates, but in case of associates, there is no such thing as consolidation. Consolidation of assets/liabilities is not done in case of associates. Merely, the valuation of investment in the associate is valued as per equity method of accounting. However, such a valuation is required only in “group accounts”. Since a company not having subsidiaries is never required to prepare group accounts, there is no question of consolidation in case of a company which merely had associates.

We may therefore say that the Amendment Rules once again creates more confusion than it resolves. The amendment gives rise to an impression that consolidation will be required in case of those companies which do not have subsidiaries but have associates from FY 15-16. There is absolutely no accounting principle on consolidation of associates.

These spasmodic changes are actually muddling the whole scene all the more. Without having to say further, MCA in its each attempt to resolve only creates more and more confusions.

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