

Accounting Standards Interpretation (ASI) 15¹

Notes to the Consolidated Financial Statements

Accounting Standard (AS) 21, Consolidated Financial Statements

[Pursuant to the issuance of this Accounting Standards Interpretation, General Clarification (GC) – 5/2002, issued in June 2002, stands withdrawn.]

ISSUE

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

CONSENSUS

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

- (a) Notes which are necessary for presenting a true and fair view of the consolidated financial statements should be included in the consolidated financial statements as an integral part thereof.
- (b) Only the notes involving items which are material need to be disclosed. Materiality for this purpose should be 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

¹Published in 'The Chartered Accountant', March 2004, pp. 956-958. The authority of this ASI is the same as that of the Accounting Standard to which it relates. The contents of this ASI are intended for the limited purpose of the Accounting Standard to which it relates. ASI is intended to apply only to material items.

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.

- (c) 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. For instance, 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:
- (i) Source from which bonus shares are issued, e.g., capitalisation of profits or Reserves or from Share Premium Account.
 - (ii) Disclosure of all unutilised monies out of the issue indicating the form in which such unutilised funds have been invested.
 - (iii) 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.
 - (iv) 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.
 - (v) Quantitative information in respect of sales, raw materials consumed, opening and closing stocks of goods produced/traded and purchases made, wherever applicable.
 - (vi) 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).

- (vii) 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.
- (viii) 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.
- (ix) Expenditure in foreign currency during the financial year on account of royalty, know-how, professional, consultation fees, interest, and other matters.
- (x) 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.
- (xi) 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.
- (xii) 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.

BASIS FOR CONCLUSIONS

3. Paragraph 6 of Accounting Standard (AS) 21, Consolidated Financial Statements, states as below:

“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.”

4. Paragraph 8 of AS 21 provides as under:

“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 -

- (a) separate financial statements of the parent; and
- (b) 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.”

5. In view of the above, consolidated financial statements should be prepared considering parent and subsidiary enterprises as one enterprise. Therefore, the test of materiality is to be applied in the context of the consolidated financial statements.

6. As per the Framework for the Preparation and Presentation of Financial Statements, the benefits derived from information should exceed the cost of providing it. In the separate financial statements, certain information is disclosed as a result of the statutory requirements. Such information may not have a bearing on the true and fair view of the consolidated financial statements. Accordingly, with a view to maintain a balance between cost and the benefits, such information need not be disclosed in the consolidated financial statements.