



Grant Thornton

An instinct for growth™

# Consolidation Services

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Leveraging our knowledge for sustainable and scalable consolidated financial reporting solution



In recent times, dynamic Indian businesses have shown a keen inclination to expand their presence into new global growth markets through acquisitions or joint ventures.

The challenge of moving into this phase of growth gets magnified with the increasing focus on quality and transparency of financial reporting by various stakeholders and the changing financial reporting regulations. With the Companies Act, 2013 coming into effect, preparation of consolidated financial statements has been made mandatory for all companies (subject to a few exceptions discussed below).

At Grant Thornton, we understand the importance of adhering to the statutory compliance regime, failing which, businesses could face serious ramifications that may impact their reputation and operations and of their stakeholders.

Our professionals deliver bespoke solutions and capitalise on their technical knowledge and experience to develop an effective and scalable financial reporting solution to meet the reporting requirements.

# Points of Discussion

1. Applicability
2. Exemptions provided by the Companies Act 2013
3. Areas of interpretation
4. How we can help
5. Our in-house tailored solution
6. About FRAS
7. Selected thought leadership material



# 1. Applicability

With the Companies Act, 2013 coming into effect –

- Preparation of Consolidated Financial Statements (CFS), has become mandatory for all companies including unlisted or private companies having subsidiaries (including associates and joint ventures).
- Companies currently preparing CFS under International Financial Reporting Standards (IFRS) would now need to prepare the CFS under Indian GAAP (IGAAP), thereby adding a tier to the annual financial reporting.
- Consolidation will be required even at intermediate levels (unless the intermediate parent is wholly-owned by a parent in India), i.e. each entity within a group which has a subsidiary, associate or joint venture must prepare CFS.

Additionally, with the Ministry of Corporate Affairs (MCA) notifying the final road map for convergence of Indian accounting framework with IFRS through “Ind AS”, the need to prepare consolidated financial statements is inevitable for all listed companies and all other companies with a net worth of Rs 250 crore or above, starting from April 1, 2016 onwards.

Preparing consolidated financial statements requires careful consideration of multiple factors and laying down a sustainable and cost-effective road map. Some of these key questions inter-alia include:

- Identifying entities that will be regarded as subsidiaries, associates or JVs. Further, with the application of Ind AS, the identification of entities to be consolidated might also change
- Defining and aligning Group Chart of Accounts (GCoA)
- Streamlining multiple accounting practices and standards across various group entities
- Accounting for historical acquisitions – opening balance sheet, purchase price allocation, computing goodwill, etc
- Developing group reporting packs for collation of information from multiple entities / locations
- Procedure for identification and elimination of inter-company transactions
- Different accounting periods for group entities
- Different ERP/ IT systems across geographies and entities
- Experience with finance teams for managing reporting under new requirements

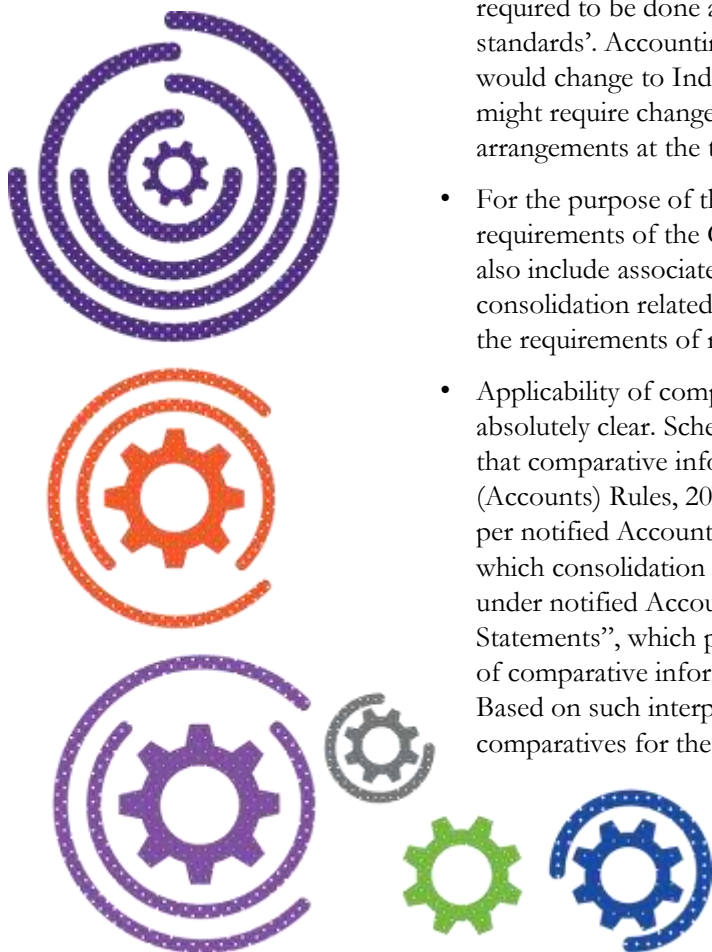


## 2. Exemptions provided under Companies Act, 2013:

The requirements for consolidation were perceived to be cumbersome by the industry. Therefore, the MCA, after receiving several representations, provided the below exemptions:

- Intermediate parent companies need not prepare CFS as long as they are wholly-owned and the immediate parent is in India
- Companies that do not have any subsidiary but only have associates and/or joint ventures need not prepare CFS only for financial year 2014-15
- Unlisted companies that have foreign subsidiary (ies) need not prepare CFS only for financial year 2014-15

### 3. Areas of interpretation



- The definition of subsidiary, associate and joint venture is different under the Companies Act, 2013, IGAAP and Ind AS. However, The Companies (Accounts) Rules, 2014 suggest that consolidation is required to be done as per the requirements of ‘accounting standards’. Accounting standards would currently mean IGAAP but would change to Ind AS for relevant companies going forward. This might require change in the assessment of the subsidiaries and joint arrangements at the time of transition to Ind AS.
- For the purpose of the application of the consolidation requirements of the Companies Act, 2013, the term subsidiary shall also include associates and joint ventures. However, for consolidation related procedures for associates and joint venture, the requirements of respective accounting standards shall apply.
- Applicability of comparative information under CFS is not absolutely clear. Schedule III to the Companies Act 2013 suggest that comparative information is mandatory, and Companies (Accounts) Rules, 2014 suggest that consolidation to be prepared as per notified Accounting Standards. The guidance for the manner in which consolidation procedures are to be carried out is described under notified Accounting Standard 21 “Consolidated Financial Statements”, which provides a transitional relief from preparation of comparative information at the time of first time consolidation. Based on such interpretation, the company may take exemption of comparatives for the first time preparation of CFS.

### 4. How we can assist:

Our team comprises financial reporting and accounting experts, each having several years of hands-on practical experience across sectors and who uniquely combine their technical expertise with the intuition, insight and confidence gained from their extensive practical experience to develop a systematic, reliable, efficient and scalable consolidation solution.

Our assistance can also be in the form of implementation of our automated consolidation tool. The tool is an Excel based and user friendly interface that substantially defines and automates the consolidation related processes.

This will entail a careful and well-documented evaluation (and suitable modifications) of the financial close process, in order to achieve an optimal balance between transparency, consistency, accuracy, reliability and speed, while also controlling costs.

# 5. Our in-house tailored solution:

## Methodology

### Planning

- Identify consolidation requirements for the group
- Perform detailed review of present financial reporting framework and financial statements
- Identify gap(s) in the existing Chart of Accounts (CoA) and information requirements

### Implementation

- Set up a CFS reporting function including uniform policies, reporting packs for data collection in uniform formats
- Prepare/ update accounting manual for uniform application of accounting principles across group
- Establish standardised CoA and procedure for its uniform application/ updation
- Drafting Standard Operating Procedure (SOP) for financial book closure and consolidation

### Results

- Preparation of draft consolidated financial statements
- Testing of consolidation process (including excel/ ERP outputs as appropriate)
- Training and knowledge transfer to accounting teams



#### **In-house developed consolidation tool:**

- An in-house developed Microsoft Excel based automatic consolidation tool
- Provides complete linkage from individual ERP trial balances to CFS
- Permits consolidation at trial balance or at grouping level
- Scalable to multiple group levels, foreign currencies and GAAPs
- Automates/ mapping of inter-company eliminations ('Auto-match' feature)
- Automated computation of complex calculations, e.g. minority interest, proportional consolidation
- Tool facilitates populating information for notes information with financial values, e.g. Leases, Fixed Assets, etc.
- Provides audit trail of consolidation procedure
- Auto-lock features to prevent unauthorised access/changes



## 6. About Financial Reporting Advisory Services:

Our Financial Reporting Advisory Services “FRAS” group includes professionals with significant hands-on experience in providing end-to-end solutions and support services relating to complex financial requirements in a wide range of scenario. Our suite of services in FRAS includes:

### **Conversion services**

FRAS professionals can assist in various ways in an entity’s conversion process including:

- Performing end-to-end conversion from local GAAP to International GAAP (IFRS/ US GAAP)
- Conversion from International GAAP to Indian GAAP for Indian consolidation
- High level diagnostic review of GAAP differences
- Suggest appropriate accounting treatment where International GAAP provides an option to choose between alternative accounting treatments
- Providing profit/ equity reconciliation from local GAAP to International GAAP

### **Transaction-based services**

Strategic business initiatives such as capital raising, business acquisitions, divestures, etc. require special attention and have far reaching implications. FRAS professionals can assist in proactively addressing these implications. Transaction-based services include:

#### **• Capital raising**

- Assistance in the preparation of financial information (consolidated/ combined/ pro forma/ carve out)
- Getting up to speed for financial reporting to meet regulatory compliance on quarterly and annual basis

#### **• Share-based compensation plans**

- Review of draft stock compensation plans to address and assess the impact on financial reporting (such as equity vs. liability accounting, impact of group stock plans on subsidiary, modification of stock awards)
- Advice on accounting for share-based transaction

#### **• Business acquisitions**

- Assistance in drafting/ review of share purchase agreement/ asset purchase agreement to address and assess the impact on financial reporting
- Assistance in Purchase Price Allocation accounting and preparation of opening balance sheet
- Assistance in consolidation and tax accounting –developing the accounting policies and procedures manual for the acquired entity

#### **• Financial instruments and hedging**

- Review of draft investment agreement to address and assess the impact on financial reporting (such as debt vs. equity classification, investment classification, accounting options available)
- Assistance in setting up the hedge accounting platform including establishing risk management policies, hedge documentation, and effectiveness of testing templates and accounting entries

#### **• Post transaction advisory and support**

- Developing group accounting policies and procedures manual –assistance in managing the global consolidation process
- Develop process and templates for collating information for dual GAAP reporting, MIS and tracking opening balance sheet adjustments

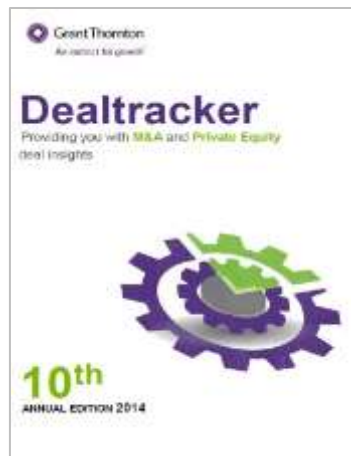
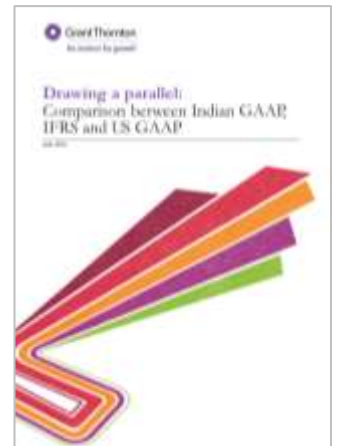
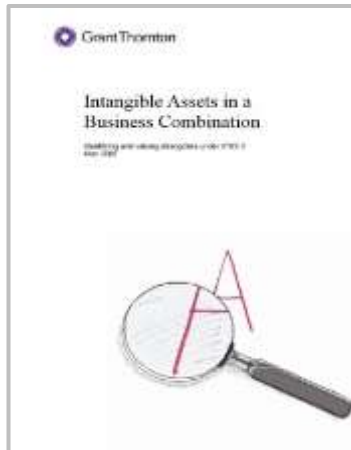
#### **• Other advisory services**

- On call advisory
- Industry/ technical training programs (such as basic and advanced training in financial instruments, full day IFRS/ US GAAP trainings etc.)





# 7. Selected thought leadership material



## 8. About us

### **Grant Thornton International Ltd.**

Grant Thornton is one of the world's leading organisations of independent assurance, tax and advisory firms. These firms help dynamic organisations unlock their potential for growth by providing meaningful, forward looking advice. Proactive teams, led by approachable partners in these firms, use insights, experience and instinct to understand complex issues for privately owned, publicly listed and public sector clients and help them to find solutions. More than 40,000 Grant Thornton people, across over 130 countries, are focused on making a difference to clients, colleagues and the communities in which we live and work.

### **Grant Thornton in India**

Grant Thornton in India is one of the largest assurance, tax, and advisory firms in India. With over 2,000 professional staff across 13 offices, the firm provides robust compliance services and growth navigation solutions on complex business and financial matters through focused practice groups. The firm has extensive experience across a range of industries, market segments, and geographical corridors. It is on a fast-track to becoming the best growth advisor to dynamic Indian businesses with global ambitions. With shorter decision-making chains, more senior personnel involvement, and empowered client service teams, the firm is able to operate in a coordinated way and respond with agility.

Over the years, Grant Thornton in India has added lateral talent across service lines and has developed a host of specialist services such as Corporate Finance, Governance, Risk & Operations, and Forensic & Investigation. The firm's strong Subject Matter Expertise (SME) focus not only enhances the reach but also helps deliver bespoke solutions tailored to the needs of its clients.



# Contact us

To know more about Grant Thornton in India, please visit [www.grantthornton.in](http://www.grantthornton.in) or contact any of our offices as mentioned below:

---

## NEW DELHI

National Office  
Outer Circle  
L 41 Connaught Circus  
New Delhi 110001  
T +91 11 4278 7070

## AHMEDABAD

BSQUARE Managed  
Offices 7th Floor,  
Shree Krishna Centre  
Nr. Mithakali Six Roads  
Navrangpura  
Ahmedabad 380009  
T +91 76000 01620

## BENGALURU

“Wings”, 1st Floor  
16/1 Cambridge Road  
Ulsoor  
Bengaluru 560008  
T +91 80 4243 0700

## CHANDIGARH

B-406A, 4th Floor  
L&T Elante Office  
Building Industrial  
Area Phase I  
Chandigarh 160002  
T +91 172 4338 000

## CHENNAI

Arihant Nitco Park,  
6th Floor No.90, Dr.  
Radhakrishnan Salai  
Mylapore  
Chennai 600004  
T +91 44 4294 0000

## GURGAON

21st Floor, DLF Square  
Jacaranda Marg  
DLF Phase II  
Gurgaon 122002  
T +91 124 462 8000

## HYDERABAD

7th Floor, Block III  
White House  
Kundan Bagh,  
Begumpet  
Hyderabad 500016  
T +91 40 6630 8200

## KOCHI

7th Floor,  
Modayil Centre point  
Warriam road junction  
M.G.Road  
Kochi 682016  
T +91 484 406 4541

## KOLKATA

10C Hungerford  
Street  
5th Floor  
Kolkata 700017  
T +91 33 4050 8000

## MUMBAI

16th Floor, Tower II  
Indiabulls Finance  
Centre SB Marg,  
Elphinstone (W)  
Mumbai 400013  
T +91 22 6626 2600

## MUMBAI

9th Floor, Classic  
Pentagon Nr Bisleri  
factory, Western  
Express Highway  
Andheri (E)  
Mumbai 400099  
T +91 22 6176 7800

## NOIDA

Plot No. 19A, 7th Floor  
Sector – 16A  
Noida 201301  
T +91 120 7109 001

## PUNE

401 Century Arcade  
Narangi Baug Road  
Off Boat Club Road  
Pune 411001  
T +91 20 4105 7000



Follow us [@GrantThorntonIN](https://twitter.com/GrantThorntonIN)

For more information or for any queries, write to us at [contact@in.gt.com](mailto:contact@in.gt.com)

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