Consolidation of Holding, Subsidiary & Associate Company Accounts

and

Arms Length transactions

Sushrut Chitale

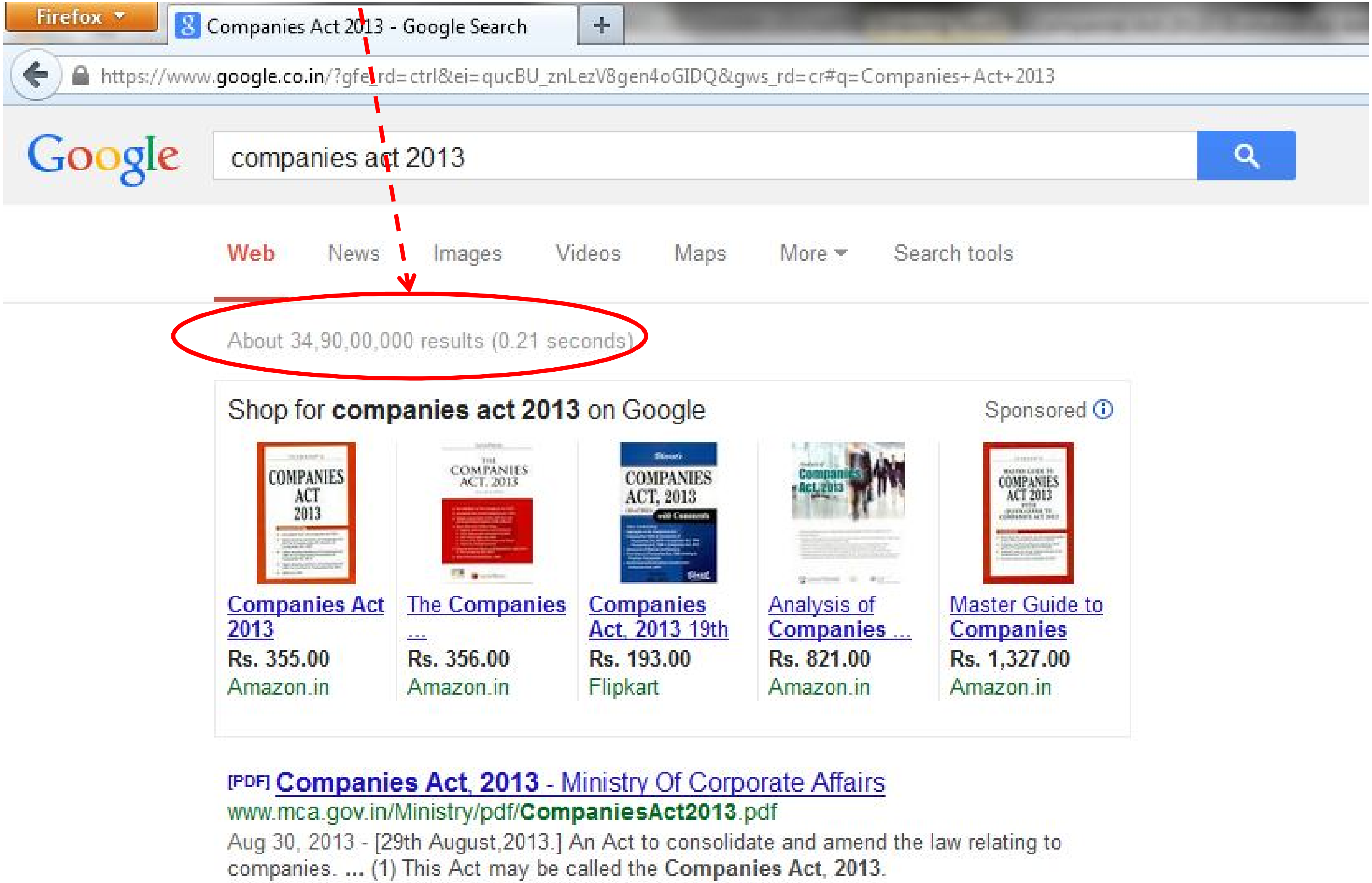
MUKUND M CHITALE & CO.

205A, AGRAWAL SHYAMKAMAL, VILE PARLE EAST, MUMBAI -400057

Landline: +91-22-2614 3127 website: www.mmchitale.com

Consolidation of Holding, Subsidiary & Associate Company Accounts

Why are we all here?



Interesting numbers...

Words commonly found	Instances in Cos Act 1956	Instances in Cos Act 2013
Prescribed	209	416
Central Government	685	384
Fraud	20	73
Auditor	145	160
Corporate Social responsibility	0	14
Private Company	190	26
Key managerial personnel	0	55
Related party	4	15
Relative	32	10
Thousand	181	122
Lakh	32	191

Key definitions

- Financial statement – [sec 2 (40)] – definition already in force
  - Defined to include balance sheet,
  - profit & loss account / income & expenditure account,
  - cash flow statement,
  - statement of changes in equity,
  - explanatory notes, if applicable
- Financial statement for small / dormant company / OPC not to include cash flow statement
- Financial year – [sec 2 (41)] – definition not in force
  - Defined as period ending on 31st March every year;
  - Where company is incorporated after 1st Jan in a year, financial year will be till 31st March of the next year
  - Companies given 2 years to align financial year to April – March

Key definitions

  - In case a company is a holding / subsidiary company of a company incorporated outside India, and such company is required to consolidate its accounts outside India, a different financial year can be followed subject to approval by the Tribunal
- Subsidiary company [Sec 2 (87)] means a company in which the holding company
  - Controls composition (>50%) of the Board
  - Exercises or controls more than 50% of total share capital either by itself or together with one or more subsidiaries
- Limits to be prescribed on number of layers of subsidiaries
- Definition of subsidiary already in force except part pertaining to layering of subsidiaries

Key definitions

- Scenarios determining whether a company is a subsidiary or not:

Total share capital of Z Ltd (Rs. Lakhs)	
Equity share capital	100
Preference share capital	100
Total share capital	200

- Scenario 1 : A Ltd holds 60% of equity share capital & 50% of preference share capital, with balance held by B Ltd
- Scenario 2 : A Ltd holds 51% of equity share capital. B Ltd holds 49% of equity capital and 100% of preference capital

Key definitions

- Associate company [Sec 2(6)] – definition already in force, in relation to another company,
  - means a company in which other company has significant influence (control of at least 20% of total share capital, or of business decisions under an agreement);
  - Includes a joint venture company
  - Does not include a subsidiary company
- Control [Sec 2(27)] - definition already in force, includes
  - Right to appoint majority of directors, or
  - Right to control management / policy decisions exercisable by persons acting individually / in concert, directly / indirectly; including by virtue of shareholding / management rights / shareholders agreement / voting agreements / any other manner

Sec 129 – Financial statement

Not in force

- Financial statements to be show true & fair view and need to be as per accounting standards.
- Board of Directors to lay before every annual general meeting the financial statements for the financial year.
- In case a company has any subsidiaries, associates or joint ventures, consolidated financial statements will also need to placed at the AGM.

Scenario	Impact
1) A Ltd holds 51% in B Ltd	CFS of A Ltd (including B Ltd) to be presented
2) A Ltd holds 51% in B Ltd. B Ltd in turns holds 100% in C Ltd	CFS of A ltd (including B Ltd and C Ltd) to be presented CFS of B Ltd (including C Ltd) also to be presented)

Sec 129 – Financial statement (continued..)

- Company to disclose deviations, if any, from accounting standards along with reasons and financial effects thereof.
- Company to give key details of subsidiaries, associates and joint ventures in a separate statement along with financial statements.

Sec 133 – Accounting standards

Already in force

- Central Government to prescribe accounting standards recommended by ICAI, in consultation with and after examination of recommendations made by NFRA.
- As per General Circular no. 15/2013, existing accounting standards notified under Companies Act 1956, shall continue to be applicable.
- Auditors report may have to partially changed to reflect the above

AS 21 – Consolidated Financial Statements

- Objective – To formulate principles and procedures for ***preparation and presentation*** of consolidated financial statements.
- Scope – Applicable to Group of enterprises under the <u>control</u> of a parent; and investments in subsidiaries
- Cases excluded from application – amalgamations, investment in Associates, investment in Joint Ventures
- Key definitions
  - Control –
    - >50% of voting power; or
    - Control of the composition of the Board, to obtain economic benefits from its activities.
  - Subsidiary – an enterprise controlled by another enterprise
  - Parent – an enterprise that has one or more subsidiaries

AS 21 – Consolidated Financial Statements

  - Equity – residual interest in assets of an enterprise after deducting all liabilities
  - Minority interest – part of net results of operations and of net assets of a subsidiary attributable to interests which are not owned directly / indirectly, by parent.
- Components of CFS – Consolidated balance sheet, consolidated profit & loss Account, notes and other explanatory material. Consolidated cash flow statement to be prepared in case company prepares standalone cash flow statement
- Consolidated financial statements to include all subsidiaries, domestic & foreign
- 1 Company can be a subsidiary of 2 holding companies at the same time – in such cases, both parents to consolidate the same subsidiary.

AS 21 – Consolidated Financial Statements

- Cases where consolidation may not be required;
  - Control is intended to be for short-term & subsidiary is acquired with 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.

Consolidation procedures

- Financial statements of parent & subsidiaries to be combined on a line by line basis by adding like items of assets, liabilities, income & expenses
- Excess of cost to parent of its investment in each subsidiary over the parent's portion of equity of each subsidiary, at the date of investment, should be eliminated.
  - If cost of investment > holding's share in equity = GOODWILL
  - If cost of investment < holding's share in equity = CAPITAL RESERVE

AS 21 – Consolidated Financial Statements

- Net income pertaining to Minority shareholders to be deducted before arriving at net income attributable to parent.
- Minority interest in net assets to be shown separately from liability & equity pertaining to parent's shareholders.
- Tax expense in CFS to be aggregate of tax expense in the separate financial statements of the parent and its subsidiaries.
- Where acquisition made in a step-by-step manner, consolidation to be done from date when the parent actually acquires control of the subsidiary
- Intra group balances and intra-group transactions and resulting unrealised profits should be eliminated in full. Unrealised losses should also be eliminated unless cost cannot be recovered.

AS 21 – Consolidated Financial Statements

- Financial statements used in consolidation to be drawn up to same reporting date. If reporting dates are different, adjustments for effects of significant transactions/events between the 2 dates to be made.
- Consolidation should be prepared using uniform accounting policies, unless it is not practicable to use the same. If accounting policies followed are different, the fact should be disclosed together with proportion of such items.
- In the year in which parent subsidiary relationship ceases to exist, consolidation to be made up-to-date of cessation. Profit / loss on sale of investment in subsidiary to be separately disclosed.

AS 21 – Consolidated Financial Statements

Disclosures

- List of all subsidiaries giving name, country of incorporation or residence, proportion of ownership and voting power
- the nature of relationship between parent and subsidiary,
- effect of the acquisition and disposal of subsidiaries on the financial position, the results and corresponding amounts for the preceding period; and
- names of subsidiaries whose reporting dates are different than that of the parent.
- when CFS are presented for the 1st time, figures for previous year need not be given.
- Other notes from separate financial statements which will assist reader in better understanding of CFS to be also included
- Additional disclosures mentioned in Schedule III

AS 23 – Investment in Associates in CFS

- AS 23 – Accounting for Investment in Associates in Consolidated Financial Statements
- Objective – set out principles & procedures for recognising effect of investments in associates on financial position & operating results of a group, in the CFS
- Scope – to be applied in case of accounting for investments in associates in the preparation & presentation of CFS
- Key definitions –
  - Associate – an enterprise in which investor has significant influence & which is neither subsidiary nor joint venture
  - Significant influence – power to participate in financial and / or operating policy decisions of investee but not control over those policies (20% holding normally assumed as significant influence)
  - Control – definition same as in AS 21

AS 23 – Investment in Associates in CFS

Consolidation procedures

- Investments in Associates to be recorded in CFS using equity method
- Investment to be initially recorded as cost, identifying goodwill / capital reserve arising at the time of acquisition.
- Carrying amount of investment is adjusted thereafter for the post acquisition change in investor's share of net assets of the investee.
- Investor's share of results of operations of investee to be included in Consolidated profit & loss account
- Goodwill/capital reserve arising on the acquisition of an associate included in the carrying amount of investment in the associate but should be disclosed separately.
- Unrealised profits and losses resulting from transactions between investor (or its consolidated subsidiaries) and the associate should be eliminated to the extent of the investor's interest in the associate.

AS 23 – Investment in Associates in CFS

- Unrealised losses should not be eliminated if & to the extent the cost of the transferred asset cannot be recovered.
- Carrying amount of investment in an associate should be reduced to recognise a permanent decline in the value of investment. Such recognition should be determined and made for each and every individual investment.
- Equity method is not applied when investment is acquired & held for subsequent disposal in near future; or there are severe long-term restrictions that significantly impair associate's ability to transfer funds to its investors. Investment in such associates should be accounted for in accordance with the Accounting Standard (AS)-13, Accounting for Investments.

AS 23 – Investment in Associates in CFS

Disclosures

- Investment in associates to be listed by proportion of ownership interest / voting power held in each associate
- Investments to be classified as long-term investments
- Investor's share of the profits / losses to be disclosed separately
- Associates where reporting date is different with difference in dates
- In case of difference in accounting policies between parent and associate, make appropriate adjustments in CFS to account for the difference. Where this is not practicable, the fact should be disclosed along with a brief description of differences in accounting policies.
- Investor’s share of the contingencies and capital commitments of an associate for which it is also contingently liable

AS 27 – Consolidation of Joint Ventures

- **Objective:** The objective of this Standard is to set out principles and procedure for accounting for interest in joint ventures and reporting of joint venture assets income , liabilities and expenses in the financial statement s of venturers and investors.
- **Scope:** This Standard should be applied for accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place.

Definitions:

- A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control.
- Joint control is the contractually agreed sharing of control over an economic activity

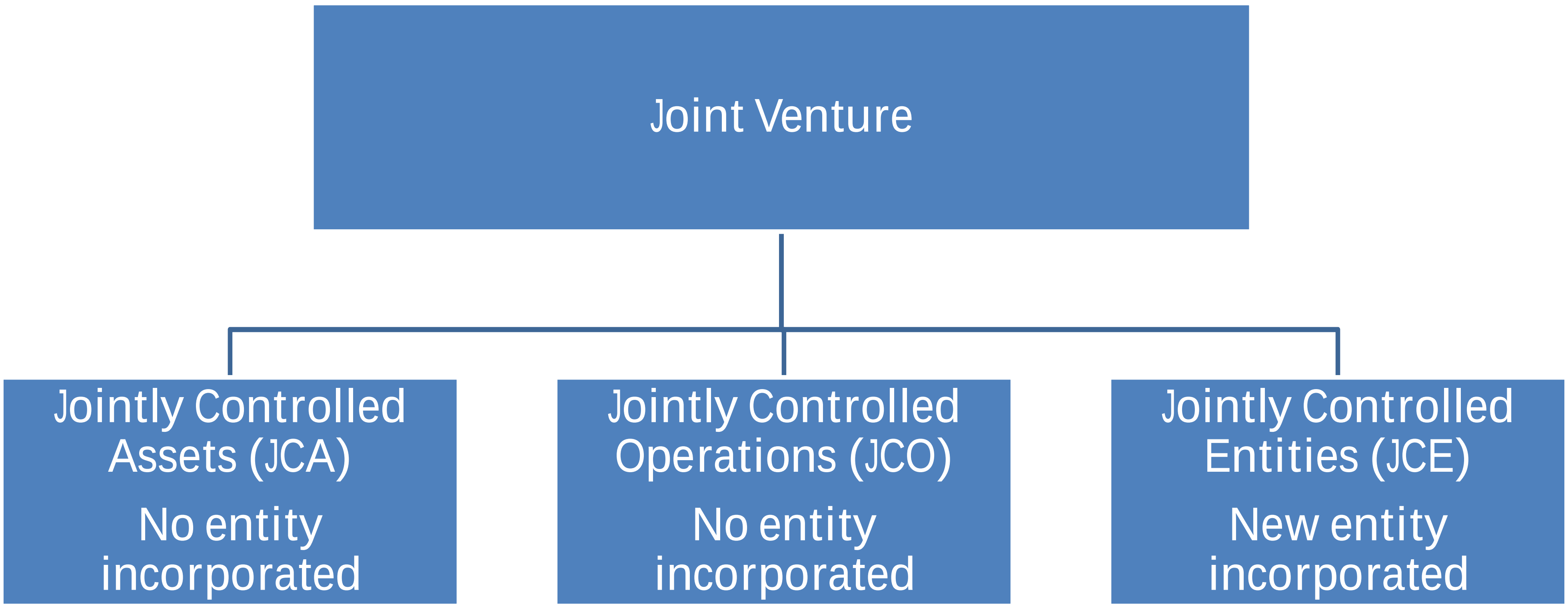
Objective, Scope and Key Definitions

Definitions:

- **Control** is the power to govern the financial and operating policies of an economic activity so as to obtain benefits from it.
- A **venturer** is a party to a joint venture and has joint control over that joint venture.
- An **investor** in a joint venture is a party to a joint venture and does not have joint control over that joint venture.
- **Proportionate consolidation** is a method of accounting and reporting whereby a venturer's share of each of the assets, liabilities, income and expenses of a jointly controlled entity is reported as separate line items in the venturer's financial statements.

Recognition and Measurement

- Types of Joint Ventures



Recognition and Measurement

Jointly Controlled Operations – Accounting Treatment

- Interests in jointly controlled Assets should be recognised by a venturer in its separate financial statements and consequently in its consolidated financial statements as below:
  - The assets that it controls and the liabilities that it incurs; and
  - The expenses that it incurs and its share of the income that it earns from the joint venture.

Jointly Controlled Assets – Accounting Treatment

- Interests in jointly controlled Assets should be recognised by a venturer in its separate financial statements and consequently in its consolidated financial statements as below:
  - Its share of the jointly controlled assets, classified according to the nature of the assets;
  - Any liabilities which it has incurred;

Recognition and Measurement..continued

- **Jointly Controlled Assets – Accounting Treatment**
  - Its share of any liabilities incurred jointly with the other venturers in relation to the joint venture;
  - Any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and
  - Any expenses which it has incurred in respect of its interest in the joint venture.

Recognition and Measurement... continued

Jointly Controlled Entities – Accounting Treatment

- A) In Separate Financial Statement of the Venturer:
  - interest should be accounted for as an investment in accordance with Accounting Standard 13, Accounting for Investments
- B) In Consolidated financial statements of a venturer
  - interest is accounted for using proportionate consolidation except where
    - an interest is acquired and held exclusively with a view to its subsequent disposal in the near future; and
    - an interest in a jointly controlled entity which operates under severe long-term restrictions that significantly impair its ability to transfer funds to the venturer.
  - Interest in such exceptions as mentioned above should be accounted for as an investment in accordance with Accounting Standard 13, Accounting for Investments.

Recognition and Measurement... continued

Discontinuance of Joint Control

- A venturer should discontinue the use of proportionate consolidation from the date that:
  - It ceases to have joint control over a jointly controlled entity but retains, either in whole or in part, its interest in the entity; or
  - Where the jointly controlled entity operates under severe long-term restrictions that significantly impair its ability to transfer funds to the venturer.

Recognition and Measurement... continued

Accounting treatment after discontinuance of Joint Control

- From the date of discontinuing the use of the proportionate consolidation, interest in a jointly controlled entity should be accounted for:
  - In accordance with Accounting Standard 21, Consolidated Financial Statements, if the venturer acquires unilateral control over the entity and becomes parent;
  - In all other cases, as an investment in accordance with Accounting Standard 13, Accounting for Investments, or in accordance with Accounting Standard 23, Accounting for Investments in Associates in Consolidated Financial Statements, as appropriate and,

Recognition and Measurement... continued

Transaction between Venturer and Joint Venture

- If a venturer contributes or sells assets to a joint venture, and has transferred significant risks and rewards of ownership, the venturer should recognise only that portion of the gain or loss which is attributable to the interests of the other venturers and should recognise the full amount of any loss when the contribution or sale provides evidence of a reduction in the net realisable value of current assets or an impairment loss.
- If a venturer purchases assets from a joint venture, it should not recognise its share of the profits of the joint venture from the transaction until it resells the assets to an independent party. It should recognise its share of losses resulting from these transactions when they represent a reduction in the net realisable value of current assets or an impairment loss.
- In case of separate financial statements of the venturer, the full amount of gain or loss on the transactions is recognised.
- In case of consolidated financial statements, the venturer recognises only that share of the unrealised gain or loss which pertains to the interests of other venturers.

Disclosure

- A venturer should disclose the following information in its separate financial statements as well as in consolidated financial statements:
- Aggregate amount of contingent liabilities, unless probability of loss is remote, separately from the amount of other contingent liabilities:
- Any contingent liabilities that the venturer has incurred in relation to its interests in joint ventures and its share in each of the contingent liabilities which have been incurred jointly with other venturers;
- Its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable; and
- Those contingent liabilities that arise because the venturer is contingently liable for the liabilities of the other venturers of a joint venture.
- A venturer should disclose the aggregate amount of the following commitments in respect of its interests in joint ventures separately from other commitments:

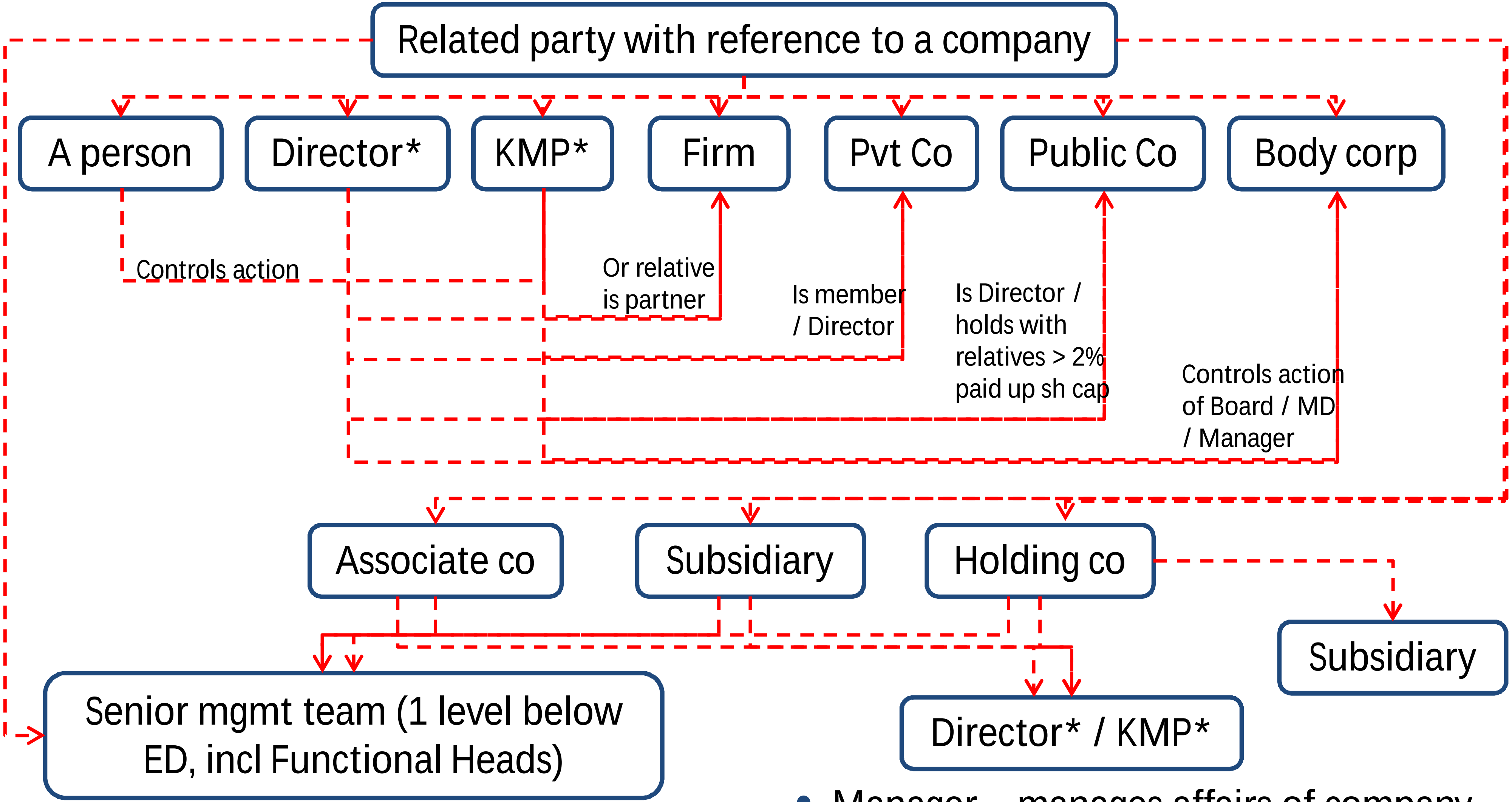
Disclosure...continued

- Any capital commitments of the venturer in relation to its interests in joint ventures and its share in the capital commitments that have been incurred jointly with other venturers; and
- Its share of the capital commitments of the joint ventures themselves.
- A list of all joint ventures and description of interests in significant joint ventures. In respect of jointly controlled entities, the venturer should also disclose the proportion of ownership interest, name and country of incorporation or residence.
- In its separate financial statements, the aggregate amounts of each of the assets, liabilities, income and expenses related to its interests in the jointly controlled entities.

Arms length transactions

Sec 2 (76) - Related party

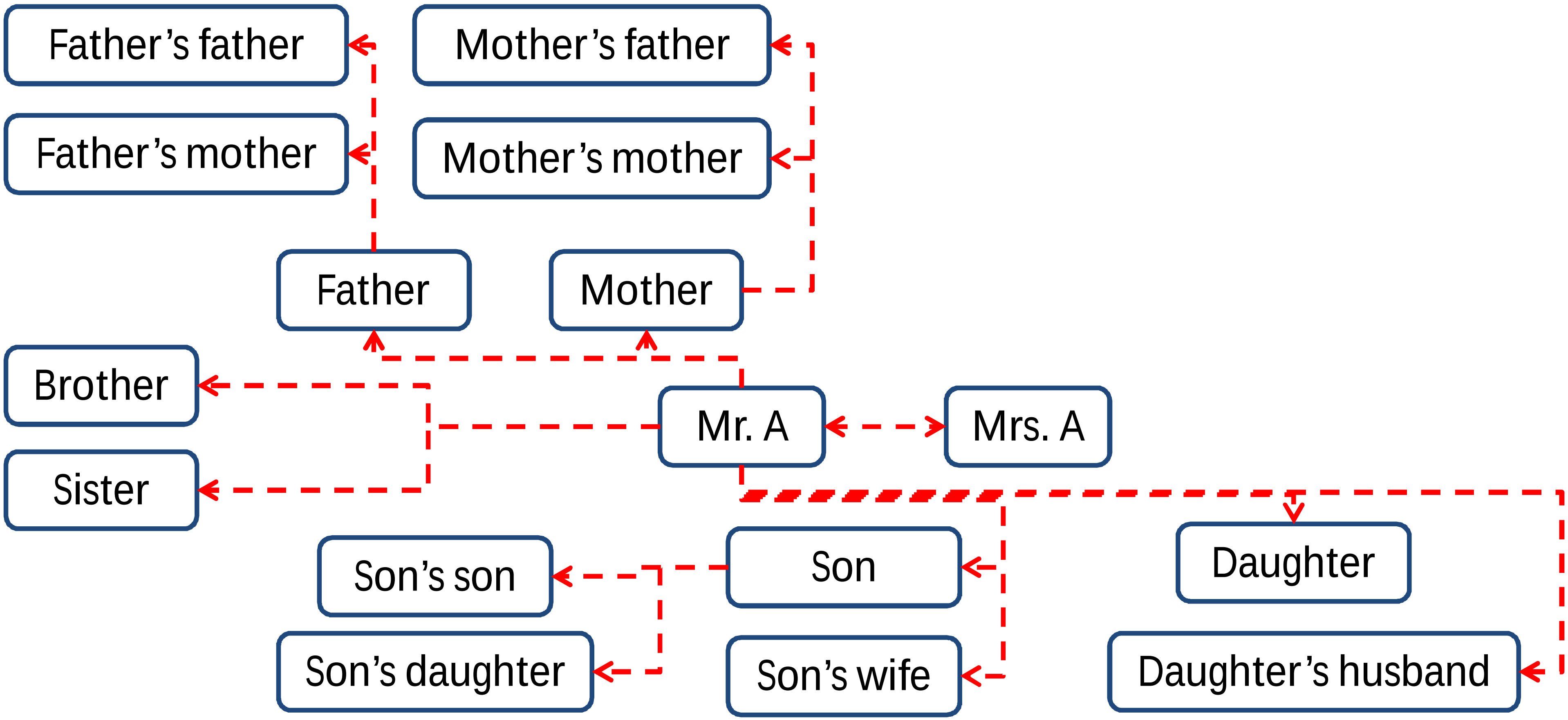
Already in force



- * - includes "relatives"
- KMP–CEO/MD/Manager, CS, WTD, CFO
- Manager – manages affairs of company (may / not be Director)
- Assoc Company - > 20% of cap , JV

Sec 2 (77) – Definition of relative

Already in force



- Relatives include all members of HUF
- Father, mother, son, daughter, brother, sister also includes step-relations

Sec 188 – Related party transactions

Not in force

- Following transactions entered in to with related parties are called related party transactions;
  a) sale / purchase / supply of goods / materials
  b) Selling / buying of property
  c) Leasing of property
  d) Availing / rendering of services
  e) Appointment of agent for purchase / sale of goods / materials / services / property
  f) Related party's appointment to office / place of profit in company / subsidiary / associate company
  g) Underwriting subscription of securities / derivatives of company
- "Office or place of profit" – any facility or remuneration received by the related party. In case of director, any facility or remuneration received above what he is entitled as director

Sec 188 – Related party transactions..

Not in force

Approval process for related party transactions

Is it an arm's length transaction in ordinary course of business

Yes

Only Board resolution reqd

No

Is paid up capital => 1 crores

No

Yes

1. Is value of total transactions in a) to e) above during FY > 5% of turnover, or >20% of NW as per last FY
2. Is it about appointment to place of profit in co / sub / assoc for > 1 lakhs p.m.
3. Is underwriting contract for > 10 lakhs

Yes

Transactions require prior approval at AGM through special resolution

No

- All related party transactions (RPT) to be pre-approved / ratified by Board / AGM within 3 months. Interested Director not to participate
- Interested member not to vote in AGM, for deciding approval

Sec 188 – Related party transactions..

Not in force

- In case of 100% subsidiary, special resolution passed by holding company is enough for transactions between holding company & subsidiary
- “Arms length transaction” – transaction between 2 related parties that is conducted as if they were unrelated, so that there is no conflict of interest
- Details of RPT to be mentioned in Board report, along with justification for entering in to the same
- If Board / AGM does not ratify a RPT, contract voidable at company’s option. If contract is with related party of director, the concerned director to indemnify for any loss caused to company
- Register of related party transactions to be maintained if value per contract during financial year exceeds Rs. 5 lakhs

ALP vs ALT

- Definition of Arm's length transaction – sec 188 of Companies Act 2013 - "Arms length transaction" – transaction between 2 related parties that is conducted as if they were unrelated, so that there is no conflict of interest
- Definition of Arm's length price – Sec 92F of Income Tax Act, 1961 – "arm's length price" means a price which is applied or proposed to be applied in a transaction between persons other than associated enterprises, in uncontrolled conditions.
- Companies Act considers arms length transaction and not arm's length price – this should include other terms and conditions in addition to price like credit terms, contingencies, other factors, etc.
- Definitions of related party different in Companies Act, transfer pricing regulations, and AS 18 – relevant regulations to be considered and applied accordingly
- Guidance from methods prescribed in TP regulations may be taken

Methods to calculate Arm's length price

- Methods to calculate arm's length price "ALP" (as per Transfer Pricing Rules)
  - Comparable Uncontrolled Price Method (CUP method)
  - Resale Price Method (RPM)
  - Cost Plus Method (CPM)
  - Profit Split Method (PSM)
  - Transactional Net Margin Method (TNMM)
  - Other Method (OM) as prescribed by Board
- 'Most appropriate method' of the above to used to calculate ALP

Factors determining appropriate method

- Following factor determine the most appropriate method to be used to calculate ALP;
  - Nature & class of transactions
  - Types of related parties and their profile who enter in to such transactions
  - Availability, coverage and reliability of data pertaining to proposed / past transactions
  - Degree of comparability
  - Extent to which reliable & accurate adjustments can be made to account for difference in transactions
- In reality, most appropriate method is determined by availability of comparable data than any other factor.
- Most appropriate method to be with respect to each transaction type and not with respect to each related party

Criteria for comparability of transactions

- Following criteria are relevant for determining comparability of transactions (which assist in arriving at arm's length price);
  - Quality of product / service
  - Quantity / value of transactions
  - Presence of intangibles (brand name / trademark)
  - Other material / physical features
- Example given in New Zealand Transfer Pricing Guidelines (quoted in Guidance note on report under section 92E of IT Act issued by ICAI);
  - Alkaline battery would sell at premium to standard battery
  - Branded battery will sell at premium to unbranded battery
  - Battery with additional features / packaging will attract premium

Criteria for comparability of transactions

- Contractual terms of transactions that determine comparability;
  - Terms of delivery (CIF, C&F, FOB)
  - Terms of payment
  - Discounts / credit period offered
  - Warranty
  - Installation services
- Generally, internal comparables are preferred over external comparables since transactions entered in to with related parties provide more reliable and accurate data. Data (with necessary adjustments) between 2 unknown parties may not be available.

Comparable Uncontrolled Price (CUP) Method

- Most popular method

Sale of company's products to related party	Sale of company's products to outsiders	Calculation of comparable uncontrolled price (ALP)	
A Ltd sells its products to related party @ Rs. 2000 p.u. with following terms; Price – FOB Quantity discount – Yes Credit – 1 month Warranty – No warranty	A Ltd also sells same product to outsiders @ 3000 p.u. with terms; Price – CIF Quantity discount – No Credit – Cash & Carry Warranty – 6 months warranty	Price charged to outsiders	3000
		(-) Cost of freight & insurance	(550)
		(-) Value of quantity discount	(20)
		(+) Value of credit per month (@ 12% p.a.)	(30)
		(-) cost of warranty for 6 months based on technical factors & past experience	(250)
		Comparable price (ALP)	**2210**

Resale Price (RPM) Method

- Typically used where goods / services purchased and resold without any major value addition. More so, where goods purchased from related parties are resold to unrelated parties.
- Method arrives at arm's length purchase price

Related party transaction	Transaction at arm's length	Calculation as per RPM	
A Ltd purchases 100 units from related party @ 2900 p.u. These are resold to B Ltd at 3000 p.u. Other terms are; Price – Ex shop Qty disc–1 % of GP Freight inwards – Rs. 10	A Ltd purchases similar products from unrelated supplier & resells to unrelated buyer @ 15% GP. Other terms are; Price – CIF Qty discount – NIL Freight inwards – NIL	Actual G P margin	15%
		(-) Diff between ex shop & CIF	(2%)
		(-) Diff due to qty discount	(1%)
		Normal G P margin	12%
		Price charged to A Ltd	3000
		(-) Normal GP margin @ 12%	(360)
		(-) Freight inwards (ignored since not considered in actual GP)	(0)
		Comparable purchase price (ALP)	**2640**

Cost Plus (CPM) Method

- Typically used in case of transactions involving provision of services, transfer of semi-finished goods, and joint facility arrangements
- Method to be used only in case of supply / sale of goods / services. This method not to be used in case of receipt of goods / services.

Related party transaction	Transaction at arm's length	Calculation as per RPM	
A Ltd develops software at cost of Rs. 175,000 and sells to related party at Rs. 200,000. Other terms are; Tech support charges – Yes Discount – Rs. 8750 Credit – Rs. 5250	A Ltd provided similar services to unrelated party and earned GP of 50% on costs. Other terms are; Tech support charges – No. Value Rs. 17500 Discount – No Credit - No	G P margin for unrelated party	50%
		(-) Tech support (% of cost)	(10%)
		(-) Discount (% of cost)	(5%)
		(+) Credit (% of cost)	2%
		Normal G P margin	27%
		Costs incurred for sale to related party	175.000
		GP margin mark up @ 27%	47,250
		Comparable sale price (ALP)	**222,250**

Profit Split (PSM) Method

- Used where activities performed by related parties are so interrelated that it is not possible to segregate the same; or in case where 2 related parties use respective intangibles to develop a product and earn income through such sale

Transaction with related parties

A Ltd along with a related party in US jointly provides investment banking services to a client M Ltd in US & has following financials;

USD	A Ltd	Related party
Revenue	30,000	20,000
Costs	20,000	8,000
Profit	10,000	12,000

Based on Function, Asset & Risk (FAR) analysis, relative contribution is as follows – 70% for A Ltd, and 30% for related party

Calculation as per PSM

Total price charged to M Ltd	50,000
A Ltd share	30,000
Related party share	20,000
Total profits	22,000
A Ltd return – 70%	15,400
Cost of A Ltd	20,000
Comparable price (ALP)	**35,400**

Transactional Net Margin (TNMM) Method

- Typically used where the other methods can not be used

Transactions	Calculation as per PSM	
A Ltd has entered in to number of transactions with related parties. However, there are no comparable transactions internally / externally. Hence, the financial statements of a similar company are considered for comparison;	EBIT margin for Z Ltd	51.52%
		Rs. Cr.
	Operating costs before interest after depreciation for A Ltd	95
	Arm's length revenue (based on above)	**143.94**

Rs. In crores	A Ltd	Z Ltd
Sales	130	200
Operating exp	85	120
Interest	5	7
Depreciation	10	12
PBT	30	61
EBITDA (% of op exp)	52.94%	66.67%
EBIT (% of op exp)	36.84%	51.52%

Other (OM) Method

- Enabler to use any other method especially for the purposes for arriving at arm’s length price for transfer pricing purposes
- Various data that can be used for comparability under the Other Method includes;
  - Third party quotations
  - Valuation reports
  - Tender / bid documents
- Generally, company has to document reasons for rejection of all the other 5 methods before selecting the ‘Other method’.

Choice of methods generally used

Situation	Method considered most appropriate
Loans, royalties, service fees, transfer of tangible items	Comparable Uncontrolled Price Method (CUPM)
Marketing of operations of finished products, especially in case of distributors not performing significant value addition to the product	Resale Price Method (RPM)
Raw materials or semi-finished goods are sold, where joint facility agreements or provision of services are involved	Cost Plus Method (CPM)
Transactions involving provision of integrated services by more than 1 enterprise	Profit Split Method (PSM)
Transfer of semi-finished goods, distribution of finished goods where applicability of resale price method appears to be inappropriate and transaction involving provision of services	Transactional Net Margin Method (TNMM)

Way forward

- Consolidation of Accounts – more information to shareholders – more compliance requirements for companies
- Related party transactions u/s 188 – Increased role & responsibilities for Audit committee & Board – supervisory responsibilities passed on to shareholders from the Central Government

THANK YOU!

Sushrut Chitale
Partner

204/205, Agrawal Shyamkamal – A,
Vile Parle East, Mumbai – 400057,
Mobile: 91 98211 12904
Email: sushrut@mmchitale.com
Website: www.mmchitale.com