

Accounting Standard
Implementation Issues

AS 21 – Consolidated Financial Statements

AS 23 – Accounting for Investment in Associates in
CFS

AS 27 – Financial reporting of Interest in Joint Venture
V/S

Ind AS

By

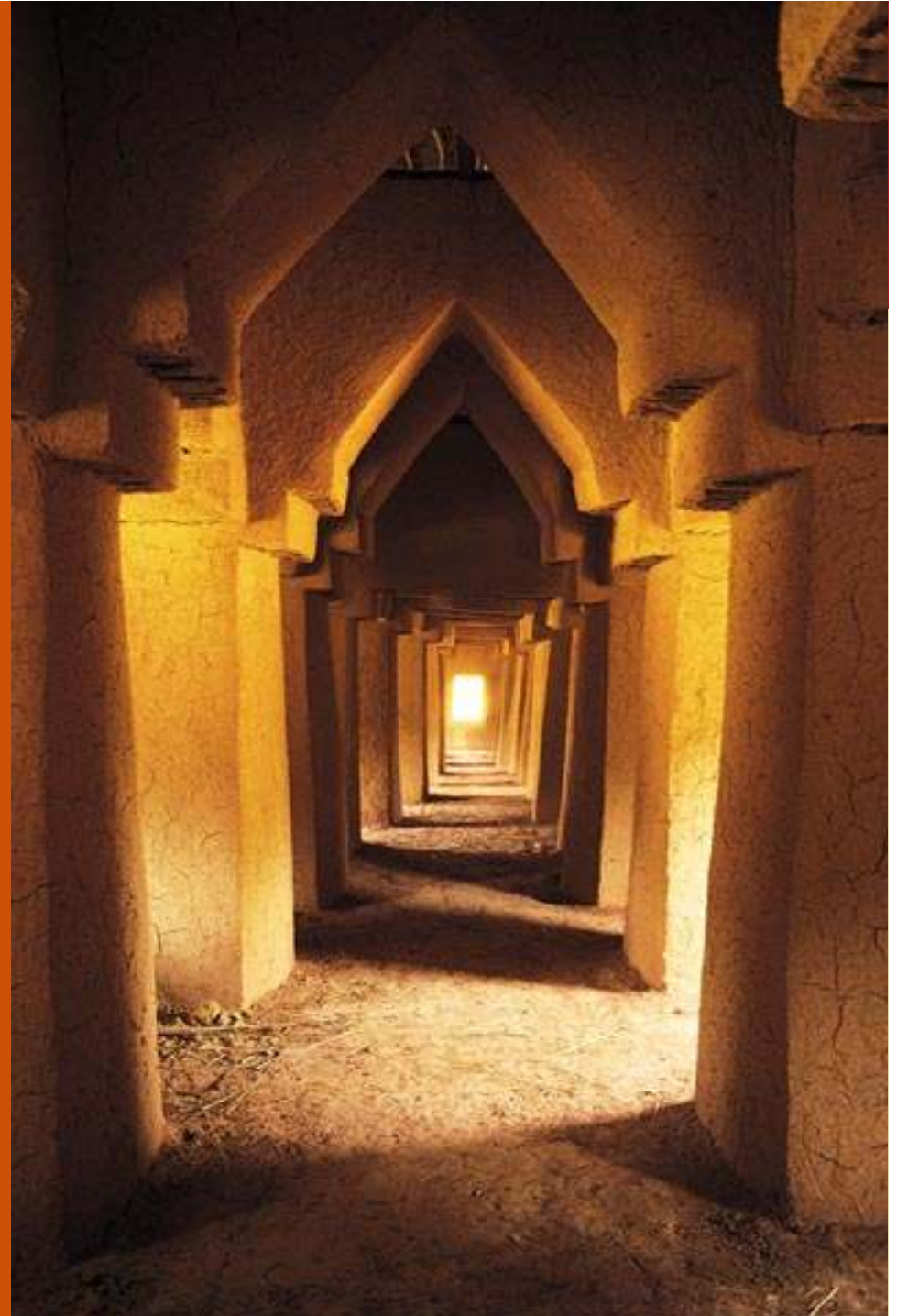
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Basic introduction to consolidation

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Implementation Issues

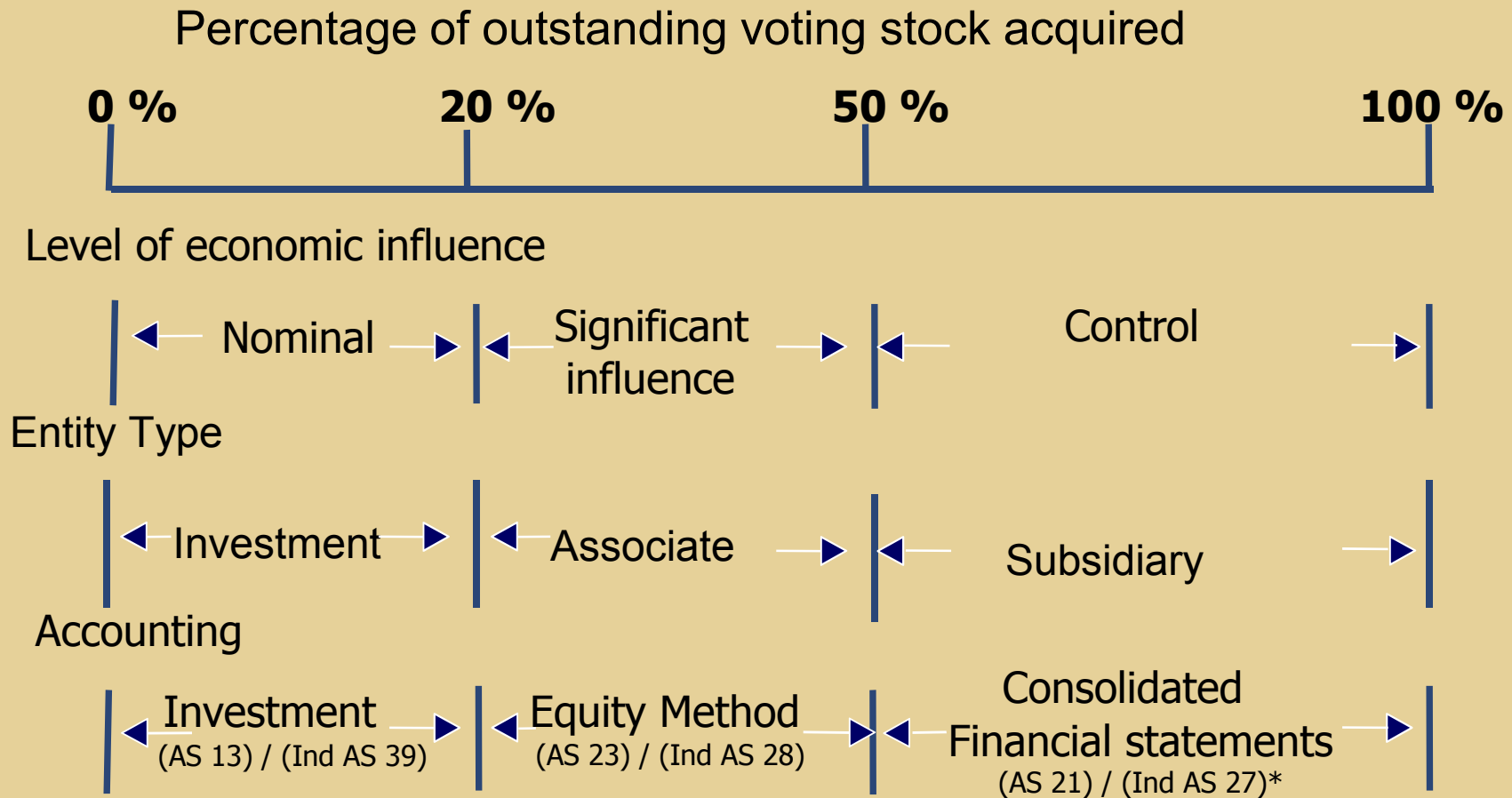
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Top 30 Question and Answers on Implementation

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Summary of Accounting for Investments



** New Ind AS 110 finalized by ICAI awaiting approval of NACAS*

Applied Concepts



1. One line pick-up – Equity accounting
2. Proportionate pick-up – Proportionate Consolidation (rare practice)
3. Line by line consolidation – Consolidation Accounting

Notes:

1. Concept of Identification of SPV or other forms of off-balance sheet exposures is gaining prominence
2. No Concept of Standalone financial statement except when push down accounting required

Implementation Issues



Question 1 – Application of Standard

Question

Is consolidated financial Statement required whenever there is investment in Associates/subsidiary/Joint Venture?

Answer

AS 21, para 9 - A parent which presents consolidated financial statements should consolidate all subsidiaries, domestic as well as foreign, other than those specifically excluded from consolidation

AS 21, para 6. - Consolidated cash flow statement is presented in case a parent presents its own cash flow statement.

AS 23, para 1 - The Statement should be applied in the preparation and presentation of consolidated financial statements for a group of enterprises under the control of a parent.

AS 23, para 7. - An investment in an associate should be accounted for in consolidated financial statements under the equity method

In nutshell, in case of a listed company where CFS is required, the company adopts AS 21, 23 and 27. In case of other enterprise which voluntarily present CFS, the preface to Indian Accounting Standards require adoption of these standards. However, in case of any other enterprise, there is no mandate to necessarily prepare any consolidated financial statements and thus these standards are not applicable.

Under Ind AS – CFS are the primary Financial Statements

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Question 2 – Scope



Question -

If consolidated financial statements are not prepared how investments in associates are accounted?

Answer

AS 23 shall not be applicable. Thus AS-13, “Accounting of Investments” shall be applicable. Accordingly such investments shall be initially carried at cost.

Under Ind AS – At cost or in accordance with Ind AS 39

Question 3 – Scope



Question

How do you consolidate when the investment is held through more than one entity?

Answer

Identification of control or significant influence is based on % shareholding in the ultimate entity but consolidation is based on effective holding.

Similar under Ind AS

Question 4 – Interpreting the term Near Future

Question

Paragraph 11 of AS 21, paragraph 7 of AS 23 and paragraph 29 of AS 27 use the words 'near future' in the context of exclusions from consolidation, application of the equity method and application of the proportionate consolidation method, respectively. The issue is what period of time should be considered as 'near future' for the above purposes?

Answer

The meaning of the words 'near future' should be 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 should be 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 investment, such an investment is not excluded from consolidation, application of the equity method or application of the proportionate consolidation method, as the case may be, until the investment is actually disposed off. Conversely, if the relevant investment is acquired with an intention to its subsequent disposal in near future, however, due to some valid reasons, it could not be disposed off within that period, the same will continue to be excluded from consolidation, application of the equity method or application of the proportionate consolidation method, as the case may be, provided there is no change in the intention.

Under Ind AS – Period is not defined

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Question 5 – Consolidating notes of Standalone Financial Statements

Question

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?

Answer ASI, 15

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
- (ii) Disclosure of all unutilised monies out of the issue
- (iii) Small scale industrial undertaking(s)

Answer to Question 5 Continued..

- (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**
- (viii) Value of imports calculated on C.I.F. basis by**
- (ix) Expenditure in foreign currency, etc., etc**

Under Ind AS – CFS are primary financial statements

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Question 6 – Treatment of Proposed Dividend of an Associate

Question

In case an associate has made a provision for proposed dividend in its financial statements, whether the investor should consider the same while computing its share of the results of operations of the associate?

Answer

ASI 16 In case an associate has made a provision for proposed dividend in its financial statements, the investor's share of the results of operations of the associate should be computed without taking into consideration the proposed dividend.

Under Ind AS – Similar to Indian GAAP

Question 7 – Equity Adjustments of Affiliates

Question

How the adjustments to the carrying amount of investment in an associate arising from changes in the associate's equity that have not been included in the statement of profit and loss of the associate, should be made?

Answer

ASI 17

Adjustments to the carrying amount of investment in an associate arising from changes in the associate's equity that have not been included in the statement of profit and loss of the associate should be directly made in the carrying amount of investment without routing it through the consolidated statement of profit and loss. The corresponding debit/credit should be made in the relevant head of the equity interest in the consolidated balance sheet. For example, in case the adjustment arises because of revaluation of fixed assets by the associate, apart from adjusting the carrying amount of investment to the extent of proportionate share of the investor in the revalued amount, the corresponding amount of revaluation reserve should be shown in the consolidated balance sheet.

Under Ind AS – Similar to Indian GAAP

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Question 8 – Potential Equity Shares

Question

For applying the definition of an 'associate', whether the potential equity shares of the investee held by the investor should be taken into account for determining the voting power of the investor.

Answer

The potential equity shares of the investee held by the investor should not be taken into account for determining the voting power of the investor unless these are currently exercisable

Under Ind AS – Similar to Indian GAAP

Question 9 – Control by Two Enterprise

Question

In case an enterprise is controlled by two enterprises - one controls by virtue of ownership of majority of the voting power of that enterprise and the other controls, by virtue of an agreement or otherwise, the composition of the board of directors so as to obtain economic benefits from its activities - whether in such a case both the controlling enterprises should consolidate the financial statements of the first mentioned enterprise.

Answer

In a rare situation, when an enterprise is controlled by two enterprises as per the definition of 'control' under AS 21, the first mentioned enterprise will be considered as subsidiary of both the controlling enterprises within the meaning of AS 21 and, therefore, both the enterprises should consolidate the financial statements of that enterprise as per the requirements of AS 21.

Under Ind AS – Generally one entity shall meet the definition of control

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Question 10 – Shares held as Stock in Trade

Question

In case an enterprise owns majority of the voting power of another enterprise but all the shares are held as 'stock-in-trade', whether this will amount to temporary control within the meaning of paragraph 11(a) of AS 21.

Answer

ASI 25

Where an enterprise owns majority of voting power by virtue of ownership of the shares of another enterprise and all the shares held as 'stock-in-trade' are acquired and held exclusively with a view to their subsequent disposal in the near future, the control by the first mentioned enterprise should be considered to be temporary within the meaning of paragraph 11(a). Note as per AS 30 (not mandatory at this point of time) such investments shall be fair valued at each reporting date with gains and losses through P&L.

Under Ind AS – Consolidation for Subsidiaries and either FVTPL or Equity Accounting for associates

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Question 11 – Disclosure of post-acquisition reserves

Question

What should be the manner of disclosure of the parent's/venturer's share in the post-acquisition reserves of a subsidiary/jointly controlled entity in the consolidated balance sheet?

Answer

ASI 28

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. While applying proportionate consolidation method, the venturer's share in the post-acquisition reserves of the jointly controlled entity should be shown separately under the relevant reserves in the consolidated financial statements.

Under Ind AS – Not required separately

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Question 12 – Dual Relationship; Subsidiary and Joint Venture

Question

In some exceptional cases, an enterprise by a contractual arrangement establishes joint control over an entity which is a subsidiary of that enterprise within the meaning of Accounting Standard (AS) 21, Consolidated Financial Statements. In such cases, should the entity consolidated under AS 21 by the said enterprise or treated as a joint venture?

Answer

Limited Revision to AS 17

The entity is consolidated under AS 21 by the said enterprise, and is not treated as a joint venture as per this Statement.

Under Ind AS – The entity is accounted as Joint Venture

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Question 13 – Special Purpose Vehicles

Question

Are Special Purpose Vehicle's required to be consolidated.

Answer

The current version of AS 21, 23 and 27 does not specifically deals with off balance sheet entities/special purpose vehicles.

Under Ind AS – Ind AS 27 : Annexure A deals with the subject

Question 14 – Consolidation at BV or FV

Question

Is purchase price allocation required on acquisition or the book value is considered?

Answer

Book value is generally considered. However, purchase price allocation on basis of fair value is not prohibited.

Under Ind AS – PPA is always on basis FV

Question 15 – Amortisation of Goodwill on Consolidation

Question

Is goodwill required to be amortized on Consolidation?

Answer

AS 26

Goodwill is an item of intangible assets. Para 2(b) of AS 26, scopes out application of the Standard. Judgment is required exercise to whether to depreciate goodwill arising on consolidation.

Amortization of goodwill is NOT mandatory.

Under Ind AS – Goodwill is never amortized but tested for impairment.

Question 16 – Form of Joint Venture Agreement



Question

Is Joint Venture Agreement required to be in Writing?

Answer

Para 7, AS 27 states

Whatever its form, the contractual arrangement is normally in writing and deals with such matters as:

- **the activity, duration and reporting obligations of the joint venture;**
- **the appointment of the board of directors or equivalent governing body of the joint venture and the voting rights of the venturers;**
- **capital contributions by the venturers; and**
- **the sharing by the venturers of the output, income, expenses or results of the joint venture.**

Ind AS – Similar to Indian GAAP

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Question 17 – Contingent Liabilities of JCE

Question

While consolidating jointly controlled entity, are contingent liabilities fully picked up or only a proportionate share is picked up?

Answer

A venturer should disclose the aggregate amount of the following contingent liabilities, unless the 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.

Question 18 – Accounting policies on Consolidation

Question

Is Uniformity in GAAP required for consolidating entities?

Answer

Para 20, AS 21

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.

Under Ind AS – Consolidated FS are with one set of accounting policies

Question 19 – Permissible differences in Reporting dates



Question

How much time-lag is permissible for investee Company's financial statements?

Answer

Para 18, of AS 21
Six Months

Ind AS – 3 months

Question 20 –Accounting of transactions - Different Reporting Dates

Question

Where there are material transactions during the time-lag period whether the entity has an option to either Adjust or Disclose?

Answer

Para 18, of AS 21

Adjustment required for significant transactions.

Ind AS – Similar to Indian GAAP

Question 21 – Inter-company profits



Question

How the profit on transactions with Inter-company is dealt with in case of equity affiliates?

Answer

Para 16 of AS 21

Unrealised profits are eliminated

Ind AS – Similar to Indian GAAP

Question 22 – Inter-company losses

Question

How the Loss on inter-company transactions is dealt with in case of transactions with equity affiliates?

Answer

Para 16 of AS 21

Unrealised losses resulting from intragroup transactions should also be eliminated unless cost cannot be recovered.

Ind AS – Similar to Indian GAAP

Question 23 – Allocation of Losses to Minority/Other Investors

Question

In case of subsidiary, how do you allocate losses to minority in case of fully eroded networth? Would your answer be different if you are consolidating an equity affiliate?

Answer

Para 26 of AS 21 and Para 18 of AS 23

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, under the equity method, an investor's share of losses of an associate equals or exceeds the carrying amount of the investment, the investor ordinarily discontinues recognising its share of further losses and the investment is reported at nil value. Additional losses are provided for to the extent that the investor has incurred obligations or made payments on behalf of the associate to satisfy obligations of the associate that the investor has guaranteed or to which the investor is otherwise committed.

Under Ind AS – More stringent to current practice. Constructive obligation is generally the Criteria

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Question 24 – Acquisition in Blocks

Question

Where investment is acquired in various blocks, do you account for each block separately or on the final block.

Answer

Para 15 of AS 21

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.

Under Ind AS – Each Block is Accounted separately with adjustment to Equity

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Question 25 – Passive Shareholdings



Question

Does passive shareholding indicate control?

Answer

Yes. The identification of subsidiary is based on existence of control.

Under Ind AS – Similar to Indian GAAP

Question 26 – Indirect Control

Question

What is the appropriate accounting procedure for indirect control: (a) by an intermediate holding entity in its separate financial statements and (b) in the consolidated financial statements of the group to which it belongs?

Answer

The identification of subsidiaries is based on existence or non existence of control relationship. However, the proportion that is finally consolidated is arrived on basis of percentage effectively held by holding co. Example company H holds 60 % share each in company (I1) and company (I2) which in turn each holds 30 % each Company S. Effectively Company Group H (through intermediaries) holds 60% in Company S. However, effectively 36% is getting picked in line by line consolidation.

Under Ind AS – Similar to Indian GAAP

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Question 27 – Veto Power

Question

Can the power to veto the majority of the votes of the board of directors (or another equivalent governing body) rebut the presumption of control?

Answer

The concept of protective right v/s participative rights has been deleted (para 9 of AS 27). Accordingly, it is assessed for joint control and needs to be assessed for accounting under joint venture.

Ind AS – Similar to Indian GAAP

Question 28 – Control less than 50 % interest

Question

Can control exist when economic interest is less than 50%?

Answer

Yes. On basis of (i) control of composition of board of directors (ii) on basis of effective control under situation of indirect holdings.

Ind AS – Similar to Indian GAAP

Question 29 – Other Accounting Standards

Question

When a foreign subsidiary is consolidated, are all assets and liabilities converted at closing rate of exchange or only monetary asset and liability converted at closing rate of exchange?

Answer

AS 11

Yes. All assets and liabilities are converted as closing rates

Ind AS – Similar to Indian GAAP

Question 30 – Other Accounting Standards



Question

How the translation gains/losses on foreign operation are accounted on consolidation?

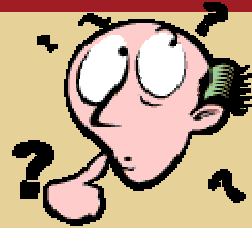
Answer

AS 11

In case of integral operation, gains or losses are taken to profit and loss account whereas, in case of non-integral operations these are taken to reserves.

Ind AS – Depends on functional currency

Any Questions



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