1

Impact of Ind AS on consolidation

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2

Index

- Basis of Consolidation – Power to Control – as per Ind AS 110
- Consolidation Procedure under Ind AS – How it differs from AS ?
- Scope Exclusion of Subsidiaries
- Roots of Consolidation
- Treatment of Good will and Gain from Bargain Purchase
- Consolidation of Associates
- Consolidation of Joint Ventures
- Case Study of Atul Limited
- Summary

3

Scope Limitation

In this presentation only those matters or accounting treatments which are typical under Ind AS and which has impact on consolidations have been discussed.

Routine matters like treatment of unrealised profits, treatment of inter-group transaction and balances which are common under I-GAPP and Ind-AS have not been covered in this presentation.

4

Glossary

Indian GAAP : Accounting Standards notified under The Companies (Accounting Standards) Rules 2016

Ind AS : Accounting Standards notified under The Companies (Indian Accounting Standards) Rules 2015 as amended.

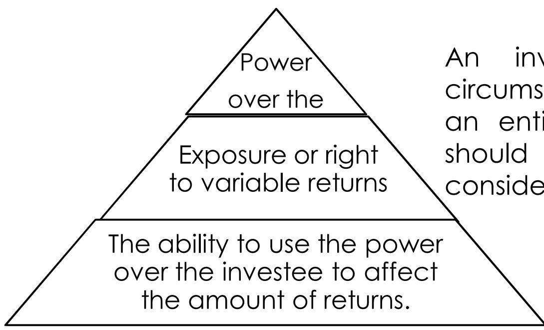
Applicable Ind AS

Ind AS 103 : Business Combinations
Ind AS 110 : Consolidations
Ind AS 111 : Joint Arrangements

Basis of Consolidation

5

- An Investor controls the Investee.
- When the **investor is exposed**, or ***has rights***, to ***variable returns*** from its involvement with the investee and;
- Has the ability to affect those returns through its power over the investee.



An investor must assess all facts and circumstances to determine whether it controls an entity - these facts and circumstances should be continuously monitored and re-considered if need be.

Structured Entities

6

Structured entity - An entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements

Attributes of Structured Entities

7

(a) restricted activities.

(b) a narrow and well-defined objective, such as to effect a tax-efficient lease, carry out research and development activities, provide a source of capital or funding to an entity or provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors.

(c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support.

(d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

Examples of Structured Entities

8

(a) securitisation vehicles.

(b) asset-backed financings.

(c) some investment funds

An entity that is controlled by voting rights is not a structured entity simply because, for example, it receives funding from third parties following a restructuring

9

Consolidation Procedure under Ind AS

- Absolutely no change in the consolidation procedure.
- Common items are eliminated
- Unrealised profits eliminated
- Consolidation starts from the date of acquisition.
- Consolidation ends on the date of loosing control.
- **THE DIFFERENCE**
- Non controlling Interest (NCI) accounted two ways
- Fair Value
- Proportionate method

10

Which subsidiaries are not consolidated ?

- Under I GAAP if there are restrictions of on repatriation of funds by the subsidiary – such subsidiarity is not consolidated – in other words such such subsidiaries are exempt from consolidation.
- No such exemption under Ind AS.
- Certain additional exemption under Ind AS., these exemptions are not there under I GAAP. Refer next two slides…>

Non – Applicability

11

- Post-employment benefit plans or other long-term employee benefit plans to which Ind AS 19 Employee Benefits applies.
- An investment entity need not present consolidated financial statements if it is required, in accordance with this IFRS, to measure all of its subsidiaries at fair value through profit or loss.

Consolidation – When is it required and When not ? (Non-Public Entities)

12

Ind AS 110, *Consolidated Financial Statements*, requires that an entity that is a parent must present consolidated financial statements that include all subsidiaries of the parent. Subject to following exceptions:

- The parent itself is a wholly-owned subsidiary or it is a partially-owned subsidiary of another entity and all of its owners, including those not normally entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;
  - Its debt and equity instruments are not traded in a public market,
  - It did not file, nor is it in the process of filing, its financial statements with a securities exchange commission or other regulatory organization for the purpose of issuing any class of its instruments in a public market; and
  - Its ultimate or intermediate parent produces consolidated financial statements that are available for public use and comply with IFRS

13

Roots of Consolidation.

- The fundamental difference is in the roots of the Consolidation lies in business combination accounts.
- That is the way the business acquisition accounting is done.
- Under I GAAP : Pooling of interest method is used.
- Under Ind AS Acquisition (purchase) method is used.

14

Acquisition Method V/s Pooling of interest method

Ind AS

- Only Acquisition method is permitted
- On the date of acquisition the acquirer has to measure all the identifiable assets and liabilities of the acquiree at fair value. (regardless of the models)
- It may also mean that the acquirer has to recognise – derecognise – remeasure and reclassify the identifiable assets and liabilities of acquiree.
- NCI is accounted for using fair value option.
- On the date of acquisition – there will be two balance sheets if the acquiree on the same day.

I GAAP

- Pooling of interest – very rarely purchase method.
- Only assets and liabilities recognised by the acquiree has to be recognised at cost.
- Minority interest is recognised using proportionate cost method.

15

What are the implications of acquisition method on Consolidations ?

- On the date of acquisition the acquirer effectively prepares an altogether new Balance Sheet of the acquiree.
- The acquiree does not make any change in its accounting records – Balance Sheet.
- Going forward future consolidation such newly constructed Balance Sheet prepared by the acquirer on the date of the acquisition.
- Identifiable assets and liabilities have to be measure on the date of acquisition regardless of models of measurement followed by the acquirer and acquiree.
- Direct to an example in an excel sheet….>>>>

16

Treatment of Good will – negative good will/ gain from bargain purchase

- Good will acquired in business combination is not amortised but tested for impairment at least one in a year regardless of indicators of impairment.
- Negative good will which is known as Gain from bargain purchase under Ind AS – is recognised in equity under Ind AS too.
- However, under IFRS gain from bargain purchase is recognised in income statement.

17

Consolidation of Associates

- Equity method is applied to associates
- Accounting treatment is same as per I GAAP

18

Consolidation of Joint Arrangements

- What is joint arrangement ?
- What are two types of joint arrangements ?
- Joint Ventures
- Joint Operations

DEFINITION AND SCOPE

19

What is Joint Arrangement ?

- A ***joint arrangement*** is an arrangement of which two or more parties have ***joint control***.

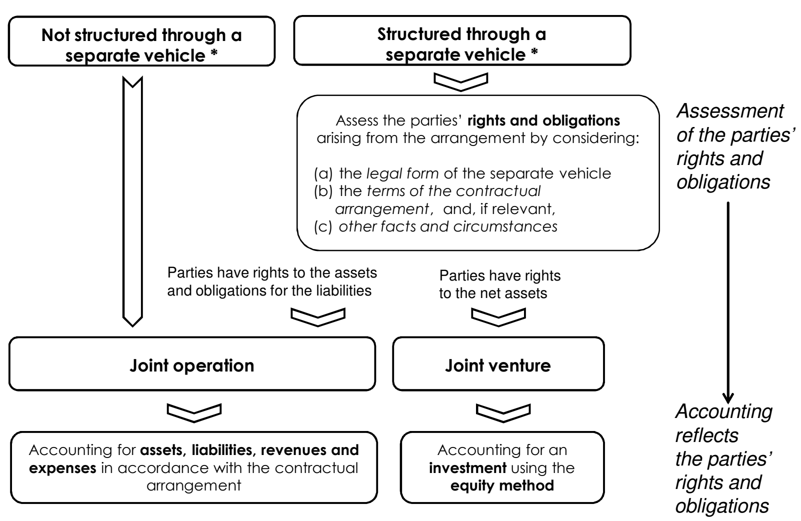
What is Joint Control ?

- This Ind AS defines joint control as the ***contractually agreed sharing of control*** of an arrangement, which exists only when decisions about the relevant activities (i.e. activities that significantly affect the returns of the arrangement) require the ***unanimous consent*** of the parties sharing control.

- **A joint arrangement is either a *joint operation or a joint venture.***

Classification and Accounting

20



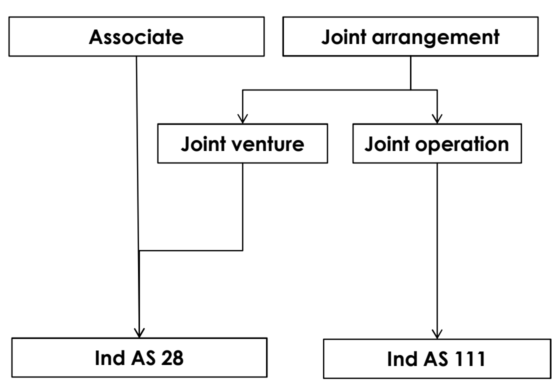
Two types of Joint Arrangements

21

Type	Right to	Accounting Treatment
Joint Venture	Right Net Assets	Equity Method
Joint Operation	Rights to assets and Obligations for liabilities	Proportionate method

Overview of Accounting

22



23

Example

A and B establish joint operation C in which A and B have rights to the assets and obligations for the liabilities of C. A own 60% and B own 40% of the equity in C. However, the contractual terms of the joint arrangement state that A has the rights to all of Building No. 1 and the obligation to pay all the third party debt in C. A and B have rights to all other assets in C, and obligations for all other liabilities in C in proportion to their equity interests (i.e. 60% & 40%). C's balance sheet is as follows (in CUs):

Assets		Liabilities and equity	
Cash	20	Debt	120
Building No. 1	120	Employee benefit plan obligation	50
Building No. 2	100	Equity	70
Total assets	**240**	**Total liabilities and equity**	**240**

24

Example

Under Ind AS 111, A would record the following in its financial statements, to account for its rights to the assets in C and its obligations for the liabilities in C. This may differ from the amounts recorded using proportionate consolidation.

Assets		Liabilities and equity	
Cash	12	Debt (note 2)	120
Building No. 1 (note 1)	120	Employee benefit plan obligation	30
Building No. 2	60	Equity	42
Total assets	**192**	**Total liabilities and equity**	**192**

Note 1: Since A has the rights to all of Building No. 1, it records that amount in its entirety.
Note 2: A's obligations are for the third-party debt in its entirety.

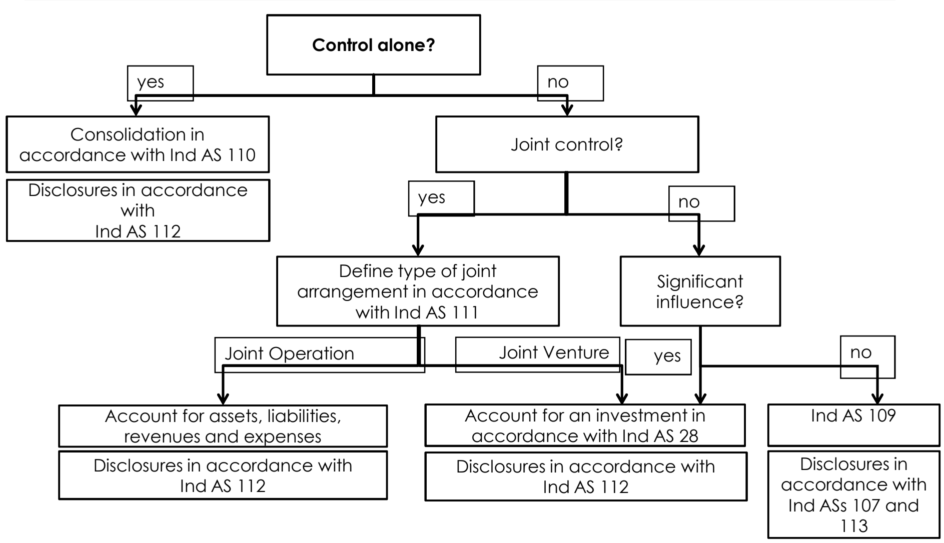
25

Live Case Study of Atul Ltd

- Case study has discussed the impact of Ind AS on Consolidation.

26

Summary



27

Any Questions ?

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