Exposure Draft

Accounting Standard (AS) 21 (Revised 20XX)

(Corresponding to IAS 27)

Consolidated and Separate Financial Statements

(Last date for Comments: May 7, 2010)

Issued by

Accounting Standards Board

The Institute of Chartered Accountants of India

Exposure Draft

Accounting Standard (AS) 21 (Revised 20XX) (Corresponding to IAS 27)

Consolidated and Separate Financial Statements

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Exposure Draft

Accounting Standard (AS) 21 (Revised 20XX)[1]
(Corresponding to IAS 27)

Consolidated and Separate Financial Statements

Following is the Exposure Draft of the Accounting Standard (AS) 21 (Revised 20XX), Consolidated and Separate Financial Statements, issued by the Accounting Standards Board of the Institute of Chartered Accountants of India, for comments. The Board invites comments on any aspect of this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments should be submitted in writing to the Secretary, Accounting Standards Board. The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002, so as to be received not later than May 07, 2010. Comments can also be sent by e-mail at edcommentsasb@icai.org or asb@icai.org.

(This Exposure Draft of the revised Accounting Standard includes paragraphs set in ***bold*** *type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles. This Exposure Draft of the revised Accounting Standard should be read in the context of its objective and the Preface to the Statements of Accounting Standards[2])*

Scope

1 This Standard shall be applied in the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent.

2 This Standard does not deal with methods of accounting for business combinations and their effects on consolidation, including goodwill arising on a business combination (see AS 14 (Revised 20XX) *Business Combinations*).

3 This Standard shall also be applied in accounting for investments in subsidiaries, jointly controlled entities and associates when an entity elects, or is required by law, to present separate financial statements.

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[1] This Exposure Draft is issued pursuant to the decision to converge with IFRSs in respect of accounting periods commencing on or after April 1, 2011. All existing Accounting Standards and new Accounting Standards which are referred to in this Draft are also being revised or formulated, as the case may be, to converge with IFRSs from the aforesaid date. References to the other standards may be viewed accordingly.

[2] Attention is specifically drawn to paragraph 4.3 of the Preface, according to which accounting standards are intended to apply only to items which are material.

Definitions

4 The following terms are used in this Standard with the meanings specified:

Consolidated financial statements **are the financial statements of a group presented as those of a single economic entity.**

Control **is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.**

A *group* **is a parent and all its subsidiaries.**

Non-controlling interest **is the equity in a subsidiary not attributable, directly or indirectly, to a parent.**

A *parent* **is an entity that has one or more subsidiaries.**

Separate financial statements **are those presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.**

A *subsidiary* **is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).**

5 A parent or its subsidiary may be an investor in an associate or a venturer in a jointly controlled entity. In such cases, consolidated financial statements prepared and presented in accordance with this Standard are also prepared so as to comply with AS 23 (Revised 20XX) *Investments in Associates* and AS 27 (Revised 20XX) *Interests in Joint Ventures*.

6 For an entity described in paragraph 5, separate financial statements are those prepared and presented in addition to the financial statements referred to in paragraph 5. Separate financial statements need not be appended to, or accompany, those statements, unless required by law.

7 The financial statements of an entity that does not have a subsidiary, associate or venturer's interest in a jointly controlled entity are not separate financial statements.

8 A parent that is exempted in accordance with paragraph 10 from presenting consolidated financial statements may present separate financial statements as its only financial statements.

Presentation of Consolidated Financial Statements

9 A parent, other than a parent described in paragraph 10, shall present consolidated financial statements in which it consolidates its investments in subsidiaries in accordance with this Standard.

10 A parent need not present consolidated financial statements if and only if:

(a) the parent is itself a wholly-owned subsidiary, or is a partially owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;

(b) the parent's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the counter market, including local and regional markets);

(c) the parent did not file, nor is it in the process of filing, its financial statements with a Securities Regulator or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and

(d) the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with Accounting Standards.

11 A parent that elects in accordance with paragraph 10 not to present consolidated financial statements, and presents only separate financial statements, complies with paragraphs 38–43.

Scope of Consolidated Financial Statements

12 Consolidated financial statements shall include all subsidiaries of the parent.[3]

13 Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the parent owns half or less of the voting power of an entity when there is:[4]

(a) power over more than half of the voting rights by virtue of an agreement with other investors;

(b) power to govern the financial and operating policies of the entity under a statute or an agreement;

(c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or

[3] If on acquisition a subsidiary meets the criteria to be classified as held for sale in accordance with AS 24 (Revised 20XX) *Non-current Assets Held for Sale and Discontinued Operations,* it shall be accounted for in accordance with that Accounting Standard.

[4] See also Appendix A Consolidation—Special Purpose Entities (Corresponding to SIC 12).

(d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

14 An entity may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares[5], or other similar instruments that have the potential, if exercised or converted, to give the entity voting power or reduce another party's voting power over the financial and operating policies of another entity (potential voting rights). The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by another entity, are considered when assessing whether an entity has the power to govern the financial and operating policies of another entity. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.

15 In assessing whether potential voting rights contribute to control, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual arrangements whether considered individually or in combination) that affect potential voting rights, except the intention of management and the financial ability to exercise or convert such rights.

16 A subsidiary is not excluded from consolidation simply because the investor is a venture capital organisation, mutual fund, unit trust or similar entity.

17 A subsidiary is not excluded from consolidation because its business activities are dissimilar from those of the other entities within the group. Relevant information is provided by consolidating such subsidiaries and disclosing additional information in the consolidated financial statements about the different business activities of subsidiaries. For example, the disclosures required by AS 17 (Revised 20XX) *Operating Segments* help to explain the significance of different business activities within the group.

Consolidation Procedure

18 In preparing consolidated financial statements, an entity combines the financial statements of the parent and its subsidiaries line by line by adding together like items of assets, liabilities, equity, income and expenses. In order that the consolidated financial statements present financial information about the group as that of a single economic entity, the following steps are then taken:

(a) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary are eliminated (see AS 14 (Revised 20XX) *Business Combinations*,, which describes the treatment of any resultant goodwill);

(b) non-controlling interests in the profit or loss of consolidated subsidiaries for the reporting period are identified; and

(c) non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the parent's ownership interests in them. Non-controlling interests in the net assets consist of:

[5] In Indian context, the term 'ordinary shares' is equivalent to 'equity shares'.

(i) the amount of those non-controlling interests at the date of the original combination calculated in accordance with AS 14 (Revised 20XX) *Business Combinations* and

(ii) the non-controlling interests' share of changes in equity since the date of the combination.

19 When potential voting rights exist, the proportions of profit or loss and changes in equity allocated to the parent and non-controlling interests are determined on the basis of present ownership interests and do not reflect the possible exercise or conversion of potential voting rights.

20 Intragroup balances, transactions, income and expenses shall be eliminated in full.

21 Intragroup balances and transactions, including income, expenses and dividends, are eliminated in full. Profits and losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full. Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements. AS 22 (Revised 20XX) *Income Taxes* applies to temporary differences that arise from the elimination of profits and losses resulting from intragroup transactions.

22 The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same date. When the end of the reporting period of the parent is different from that of a subsidiary, the subsidiary prepares, for consolidation purposes, additional financial statements as of the same date as the financial statements of the parent unless it is impracticable to do so.

23 When, in accordance with paragraph 22, the financial statements of a subsidiary used in the preparation of consolidated financial statements are prepared as of a date different from that of the parent's financial statements, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the parent's financial statements. In any case, the difference between the end of the reporting period of the subsidiary and that of the parent shall be no more than three months. The length of the reporting periods and any difference between the ends of the reporting periods shall be the same from period to period.

24 Consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances.

25 If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

26 The income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date as defined in AS 14 (Revised 20XX) *Business Combinations*. Income and expenses of the subsidiary shall be based on the values of the assets and liabilities recognised in the parent's consolidated financial statements at the acquisition date. For example, depreciation expense recognised in the consolidated statement of profit and loss after the acquisition date shall be based on the fair values of the related depreciable assets recognised in the consolidated financial statements at the acquisition date. The income and expenses of a subsidiary are included in the consolidated financial statements until the date when the parent ceases to control the subsidiary.

27 Non-controlling interests shall be presented in the consolidated balance sheet within equity, separately from the equity of the owners of the parent.

28 Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

29 If a subsidiary has outstanding cumulative preference shares that are classified as equity and are held by non-controlling interests, the parent computes its share of profit or loss after adjusting for the dividends on such shares, whether or not dividends have been declared.

30 Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e transactions with owners in their capacity as owners).

31 In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognised directly in equity and attributed to the owners of the parent.

Loss of Control

32 A parent can lose control of a subsidiary with or without a change in absolute or relative ownership levels. This could occur, for example, when a subsidiary becomes subject to the control of a government, court, administrator or regulator. It also could occur as a result of a contractual agreement.

33 A parent might lose control of a subsidiary in two or more arrangements (transactions). However, sometimes circumstances indicate that the multiple arrangements should be accounted for as a single transaction. In determining whether to account for the arrangements as a single transaction, a parent shall consider all of the terms and conditions of the arrangements and their economic effects. One or more of the following may indicate that the parent should account for the multiple arrangements as a single transaction:

(a) They are entered into at the same time or in contemplation of each other.

(b) They form a single transaction designed to achieve an overall commercial effect.

(c) The occurrence of one arrangement is dependent on the occurrence of at least one other arrangement.

(d) One arrangement considered on its own is not economically justified, but it is economically justified when considered together with other arrangements. An example is when one disposal of shares is priced below market and is compensated for by a subsequent disposal priced above market.

34 If a parent loses control of a subsidiary, it:

a) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;

(b) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them);

(c) recognises:

(i) the fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control; and

(ii) if the transaction that resulted in the loss of control involves a distribution of shares of the subsidiary to owners in their capacity as owners, that distribution;

(d) recognises any investment retained in the former subsidiary at its fair value at the date when control is lost;

(e) reclassifies to profit or loss, or transfers directly to retained earnings if required in accordance with other Accounting Standards, the amounts identified in paragraph 35; and

(f) recognises any resulting difference as a gain or loss in profit or loss attributable to the parent.

35. If a parent loses control of a subsidiary, the parent shall account for all amounts recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the parent had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the parent reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary. For example, if a subsidiary has available-for-sale financial assets and the parent loses control of the subsidiary, the parent shall reclassify to profit or loss the gain or loss previously recognised in other comprehensive income in relation to those assets. Similarly, if a revaluation surplus previously recognised in other comprehensive income would be transferred directly to retained earnings on the disposal of the asset, the parent transfers

the revaluation surplus directly to retained earnings when it loses control of the subsidiary.

36 On the loss of control of a subsidiary, any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary shall be accounted for in accordance with other Accounting Standards from the date when control is lost.

37 The fair value of any investment retained in the former subsidiary at the date when control is lost shall be regarded as the fair value on initial recognition of a financial asset in accordance with AS 30 (Revised 20XX) *Financial Instruments: Recognition and Measurement* or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Accounting for Investments in Subsidiaries, Jointly Controlled Entities and Associates in Separate Financial Statements

38 When an entity prepares separate financial statements, it shall account for investments in subsidiaries, jointly controlled entities and associates either:

(a) at cost, or
(b) in accordance with AS 30 (Revised 20XX).

The entity shall apply the same accounting for each category of investments. Investments accounted for at cost shall be accounted for in accordance with AS 24 (Revised 20XX) *Non-current Assets Held for Sale and Discontinued Operations* when they are classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with AS 24 (Revised 20XX). The measurement of investments accounted for in accordance with AS 30 (Revised 20XX) is not changed in such circumstances.

38A An entity shall recognise a dividend from a subsidiary, jointly controlled entity or associate in profit or loss in its separate financial statements when its right to receive the dividend is established.

38B When a parent reorganises the structure of its group by establishing a new entity as its parent in a manner that satisfies the following criteria:

(a) the new parent obtains control of the original parent by issuing equity instruments in exchange for existing equity instruments of the original parent;

(b) the assets and liabilities of the new group and the original group are the same immediately before and after the reorganisation; and

(c) the owners of the original parent before the reorganisation have the same absolute and relative interests in the net assets of the original group and the new group immediately before and after the reorganisation and the new parent accounts for its investment in the original parent in accordance with paragraph 38(a) in its separate financial statements, the new parent shall measure cost at the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the date of the reorganisation.

38C Similarly, an entity that is not a parent might establish a new entity as its parent in a manner that satisfies the criteria in paragraph 38B. The requirements in paragraph 38B apply equally to such reorganisations. In such cases, references to ‘original parent’ and ‘original group’ are to the ‘original entity’.

39 This Standard does not mandate which entities produce separate financial statements available for public use. Paragraphs 38 and 40–43 apply when an entity prepares separate financial statements that comply with Accounting Standards. The entity also produces consolidated financial statements available for public use as required by paragraph 9, unless the exemption provided in paragraph 10 is applicable.

40 Investments in jointly controlled entities and associates that are accounted for in accordance with AS 30 (Revised 20XX) in the consolidated financial statements shall be accounted for in the same way in the investor’s separate financial statements.

Disclosures

41 The following disclosures shall be made in consolidated financial statements:

(a) the nature of the relationship between the parent and a subsidiary when the parent does not own, directly or indirectly through subsidiaries, more than half of the voting power;

(b) the reasons why the ownership, directly or indirectly through subsidiaries, of more than half of the voting or potential voting power of an investee does not constitute control;

(c) the end of the reporting period of the financial statements of a subsidiary when such financial statements are used to prepare consolidated financial statements and are as of a date or for a period that is different from that of the parent’s financial statements, and the reason for using a different date or period;

(d) the nature and extent of any significant restrictions (e.g. resulting from borrowing arrangements or regulatory requirements) on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans or advances;

(e) a schedule that shows the effects of any changes in a parent’s ownership interest in a subsidiary that do not result in a loss of control on the equity attributable to owners of the parent; and

(f) if control of a subsidiary is lost, the parent shall disclose the gain or loss, if any, recognised in accordance with paragraph 34, and:

(i) the portion of that gain or loss attributable to recognising any investment retained in the former subsidiary at its fair value at the date when control is lost; and

(ii) the line item(s) in the statement of profit and loss in which the gain or loss is recognised (if not presented separately in the statement of profit and loss).

42 When separate financial statements are prepared for a parent that, in accordance with paragraph 10, elects not to prepare consolidated financial statements, those separate financial statements shall disclose:

(a) the fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name and country of incorporation or residence of the entity whose consolidated financial statements that comply with Accounting Standards have been produced for public use; and the address where those consolidated financial statements are obtainable;

(b) a list of significant investments in subsidiaries, jointly controlled entities and associates, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held; and

(c) a description of the method used to account for the investments listed under (b).

43 When a parent (other than a parent covered by paragraph 42), venturer with an interest in a jointly controlled entity or an investor in an associate prepares separate financial statements, those separate financial statements shall disclose:

(a) the fact that the statements are separate financial statements and the reasons why those statements are prepared if not required by law;

(b) a list of significant investments in subsidiaries, jointly controlled entities and associates, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held; and

(c) a description of the method used to account for the investments listed under (b);

and shall identify the financial statements prepared in accordance with paragraph 9 of this Standard or AS 23 (Revised 20XX) and AS 27 (Revised 20XX) to which they relate.

Effective date and transition

44 An entity to which this Accounting Standard is applicable shall apply it for accounting periods commencing on or after the date (to be announced separately) 1st April 2011 and will be mandatory in nature[6] from that date.

45 (Deleted)

45A (Deleted)

45B (Deleted)

45C (Deleted)

Withdrawal of AS 21 (Issued 2001)

46 This Standard supersedes AS 21 *Consolidated Financial Statements* (Issued 2001) in respect of the entities to which this Accounting Standard is applicable.

[6] This implies that, while discharging their attest function, it will be the duty of the members of the Institute to examine whether this Accounting Standard is complied with in the presentation of financial statements covered by their audit. In the event of any deviation from this Accounting Standard, it will be their duty to make adequate disclosures in their audit reports so that the users of financial statements may be aware of such deviations.

Appendix A

This Appendix is an integral part of Accounting Standard 21(Revised 20XX).

Consolidation––Special Purpose Entities (Corresponding to SIC 12)

Issue

1 An entity may be created to accomplish a narrow and well-defined objective (e.g., to effect a lease, research and development activities or a securitisation of financial assets). Such a special purpose entity ('SPE') may take the form of a corporation, trust, partnership or unincorporated entity. SPEs often are created with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their governing board, trustee or management over the operations of the SPE. Frequently, these provisions specify that the policy guiding the ongoing activities of the SPE cannot be modified, other than perhaps by its creator or sponsor (i.e., they operate on so-called 'autopilot').

2 The sponsor (or entity on whose behalf the SPE was created) frequently transfers assets to the SPE, obtains the right to use assets held by the SPE or performs services for the SPE, while other parties ('capital providers') may provide the funding to the SPE. An entity that engages in transactions with an SPE (frequently the creator or sponsor) may in substance control the SPE.

3 A beneficial interest in an SPE may, for example, take the form of a debt instrument, an equity instrument, a participation right, a residual interest or a lease. Some beneficial interests may simply provide the holder with a fixed or stated rate of return, while others give the holder rights or access to other future economic benefits of the SPE's activities. In most cases, the creator or sponsor (or the entity on whose behalf the SPE was created) retains a significant beneficial interest in the SPE's activities, even though it may own little or none of the SPE's equity.

4 AS 21 (Revised 20XX) requires the consolidation of entities that are controlled by the reporting entity. While the standard does not provide explicit guidance on the consolidation of SPEs, this Appendix does so.

5 The issue is under what circumstances an entity should consolidate an SPE.

6 This Appendix does not apply to post-employment benefit plans or other long-term employee benefit plans to which AS 15 (Revised 20XX) applies.

7 A transfer of assets from an entity to an SPE may qualify as a sale by that entity. Even if the transfer does qualify as a sale, the provisions of this Standard including this Appendix may mean that the entity should consolidate the SPE. This Appendix does not address the circumstances in which sale treatment should apply for the entity or the elimination of the consequences of such a sale upon consolidation.

Accounting Principles

8 An SPE shall be consolidated when the substance of the relationship between an entity and the SPE indicates that the SPE is controlled by that entity.

9 In the context of an SPE, control may arise through the predetermination of the activities of the SPE (operating on 'autopilot') or otherwise. Paragraph 13 of this Standard indicates several circumstances which result in control even in cases where an entity owns one half or less of the voting power of another entity. Similarly, control may exist even in cases where an entity owns little or none of the SPE's equity. The application of the control concept requires, in each case, judgement in the context of all relevant factors.

10 In addition to the situations described in paragraph 13 of this Standard, the following circumstances, for example, may indicate a relationship in which an entity controls an SPE and consequently should consolidate the SPE (additional guidance is provided by way of indicators of control over an SPE given along with this Appendix):

(a) in substance, the activities of the SPE are being conducted on behalf of the entity according to its specific business needs so that the entity obtains benefits from the SPE's operation;

(b) in substance, the entity has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism, the entity has delegated these decision-making powers;

(c) in substance, the entity has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE; or

(d) in substance, the entity retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

Indicators of control over an SPE

These indicators accompany, but are not part of, Appendix A.

The examples in paragraph 10 of Appendix A are intended to indicate types of circumstances that should be considered in evaluating a particular arrangement in light of the substance-over-form principle. The guidance provided in Appendix A and in these indicators of control over an SPE are not intended to be used as 'a comprehensive checklist' of conditions that must be met cumulatively in order to require consolidation of an SPE.

(a) Activities

The activities of the SPE, in substance, are being conducted on behalf of the reporting entity, which directly or indirectly created the SPE according to its specific business needs.

Examples are:

- the SPE is principally engaged in providing a source of long-term capital to an entity or funding to support an entity's ongoing major or central operations; or

- the SPE provides a supply of goods or services that is consistent with an entity's ongoing major or central operations which, without the existence of the SPE, would have to be provided by the entity itself.

Economic dependence of an entity on the reporting entity (such as relations of suppliers to a significant customer) does not, by itself, lead to control.

(b) *Decision-making*

The reporting entity, in substance, has the decision-making powers to control or to obtain control of the SPE or its assets, including certain decision-making powers coming into existence after the formation of the SPE. Such decision-making powers may have been delegated by establishing an 'autopilot' mechanism.

Examples are:

- power to unilaterally dissolve an SPE;
- power to change the SPE's charter or bylaws; or
- power to veto proposed changes of the SPE's charter or bylaws.

(c) *Benefits*

The reporting entity, in substance, has rights to obtain a majority of the benefits of the SPE's activities through a statute, contract, agreement, or trust deed, or any other scheme, arrangement or device. Such rights to benefits in the SPE may be indicators of control when they are specified in favour of an entity that is engaged in transactions with an SPE and that entity stands to gain those benefits from the financial performance of the SPE.

Examples are:

- rights to a majority of any economic benefits distributed by an entity in the form of future net cash flows, earnings, net assets, or other economic benefits; or
- rights to majority residual interests in scheduled residual distributions or in a liquidation of the SPE

(d) *Risks*
An indication of control may be obtained by evaluating the risks of each party engaging in transactions with an SPE. Frequently, the reporting entity guarantees a return or credit protection directly or indirectly through the SPE to outside investors who provide substantially all of the capital to the SPE. As a result of the guarantee, the entity retains residual or ownership risks and the investors are, in substance, only lenders because their exposure to gains and losses is limited

Examples are:

- the capital providers do not have a significant interest in the underlying net assets of the SPE;
- the capital providers do not have rights to the future economic benefits of the SPE;
- the capital providers are not substantively exposed to the inherent risks of the underlying net assets or operations of the SPE; or
- in substance, the capital providers receive mainly consideration equivalent to a lender's return through a debt or equity interest.

Appendix B

References to matters contained in other Accounting Standards

This Appendix is an integral part of Accounting Standard 21 (Revised 20XX).

1. Appendix A, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (Corresponding to IFRIC 5) contained in AS 29 *Provisions, Contingent Liabilities and Contingent Assets* (revised 20XX) makes reference to this Standard also.

2. Appendix A, Distribution of Non-cash Assets to Owners (Corresponding to IFRIC 17) contained in AS 4 *Events after the Reporting Period* (revised 20XX) makes reference to this Standard also.

Appendix C

Conflicting Legal and Regulatory Issues

Note: This Appendix is not a part of the Accounting Standard (AS) 21 (revised 20XX) Consolidated and Separate Financial Statements. Some of the situations or accounting treatments prescribed in AS 21 (revised 20XX) may not be in conformity with the present requirements of applicable laws/regulations in the country. In such cases, the provisions of the applicable laws/regulations will prevail. This Appendix contains the following such instances.

Conflicting Issues with Companies Act, 1956

(i) Definition of control given in the draft of AS 21 (Revised 20XX) is different from the holding-subsidiary relationship defined under section 4(1) of the Companies Act, 1956, according to which a company shall be deemed to be a subsidiary of another on the basis of composition of board of directors or holding of more than half of the nominal value of the equity share capital. The draft of AS 21 (Revised 20XX) defines control as the power to govern the financial and operating policies of another company, though it may not have current control over the composition of board of directors or may not currently hold more than half of the nominal value of the equity capital of the other company.

Appendix D

Note: This Appendix is not a part of the Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Exposure Draft of Accounting Standard (AS) 21 (Revised 20XX) and the corresponding International Accounting Standard (IAS) 27, Consolidated and Separate Financial Statements and SIC 12, *Consolidation—Special Purpose Entities.*

Comparison with IAS 27, *Consolidated and Separate Financial Statements* and SIC 12, *Consolidation––Special Purpose Entities*

There is no major difference between the Exposure Draft of AS 21 (Revised 20XX), *Consolidated and Separate Financial Statements* and International Accounting Standard (IAS) 27, *Consolidated and Separate Financial Statements and SIC 12, Consolidation—Special Purpose Entities* except that the transitional provisions given in IAS 27 have not been given in the Exposure Draft of AS 27 (Revised 20XX), keeping in view that Accounting Standard corresponding to IFRS 1, *First-time Adoption of International Financial Reporting Standards,* will deal with the same.

Appendix E

Note: This Appendix is not a part of the Accounting Standard. This Appendix is provided to bring out the major differences between Exposure Draft of Accounting Standard (AS) 21 (Revised 20XX) and the existing AS 21 (Issued 2001) with a view to facilitate commentators in sending their comments on the Exposure Draft of AS 21.

Major Differences between the Exposure Draft of AS 21 (Revised 20XX) *Consolidated and Separate Financial Statements*, and existing AS 21, *Consolidated Financial Statements*

1. The Exposure Draft of AS 21 (Revised 20XX) makes the preparation of Consolidated Financial Statements mandatory for a parent except where parent meets certain conditions. Existing AS 21 does not mandate the preparation of Consolidated Financial Statements by a parent.

As far as separate financial statements are concerned, as per existing AS 21 Consolidated Financial Statements are prepared in addition to separate financial statements. However, the Exposure Draft of AS 21 (Revised 20XX) does not mandate preparation of separate financial statements.

2. The Exposure Draft of AS 21 (Revised 20XX) deals with investments in jointly controlled entities and associates to be presented in the separate financial statements. Existing AS 21 does not deal with the same.

3. As per existing AS 21, subsidiary is excluded from consolidation when control is intended to be temporary or when subsidiary operates under severe long term restrictions. The Exposure Draft of AS 21 (Revised 20XX) does not give any such exemption from consolidation except that if a subsidiary meets the criteria to be classified as held for sale, in that case it shall be accounted for as per AS 24 (Revised 20XX), *Non-current Assets held for Sale and Discontinued Operations*.

Existing AS 21 explains where an entity owns majority of voting power because of ownership and all the shares are held as stock-in-trade, whether this amounts to temporary control. Existing AS 21 also explains the term ‘near future’. However, the Exposure Draft of AS 21 (Revised 20XX) does not explain the same, as these are not relevant.

4. As per the definition given in the Exposure Draft of AS 21 (Revised 20XX), control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. However, the definition of control given in the existing AS 21 is rule-based, which requires the ownership, directly or indirectly through subsidiary(ies), of more than half of the voting power of an enterprise; or control of the

composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise so as to obtain economic benefits from its activities.

Existing AS 21 also provides clarification regarding consolidation in case an entity is controlled by two entities. No clarification has been provided in this regard in the Exposure Draft of AS 21 (Revised 20XX), keeping in view that as per the definition of control given in the Exposure Draft, control of an entity could be with one entity only.

5. For considering share ownership, potential equity shares of the investee held by investor are not taken into account as per existing AS 21. However, as per the Exposure Draft of AS 21 (Revised 20XX), existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether an entity has control over the subsidiary.

6. As per existing AS 21 minority interest should be presented in the consolidated balance sheet separately from liabilities and equity of the parent's shareholders. However, as per the Exposure Draft of AS 21 (Revised 20XX) minority interests shall be presented in the consolidated balance sheet within equity separately from the parent shareholders' equity.

7. Existing AS 21 permits the use of financial statements of the subsidiaries drawn upto a date different from the date of financial statements of the parent after making adjustments regarding effects of significant transactions. The difference between the reporting dates should not be more than six months. As per the Exposure Draft AS 21 (Revised 20XX), the length of difference in the reporting dates of the parent and the subsidiary should not be more than three months.

8. Both, the existing AS 21 and the Exposure Draft of AS 21 (Revised 20XX), require the use of uniform accounting policies. However, existing AS 21 specifically states that 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. However, the Exposure Draft of AS 21 (Revised 20XX) does not recognise the situation of impracticability.

9. As per the existing AS 21, any goodwill arising on acquisition of a subsidiary is to be recognised as an asset in the consolidated financial statements. The Exposure Draft of AS 21 (Revised 20XX) requires the same to be treated in accordance with AS 14 (Revised 20XX), *Business Combinations*.

10. The Exposure Draft of AS 21 (Revised 20XX) provides detailed guidance as compared to existing AS 21 regarding accounting in case of loss of control over subsidiary.

11. Existing AS 21 provides clarification regarding inclusion of notes appearing in the separate financial statements of the parent and its subsidiaries in the consolidated financial statements. However, the Exposure Draft of AS 21 (Revised 20XX) does not provide any clarification in this regard.

12. Existing AS 21 provides clarification regarding accounting for taxes on income in the consolidated financial statements. However, the same has not been dealt with in the Exposure Draft of AS 21 (Revised 20XX), as the same is dealt with in AS 22, (Revised 20XX), *Income taxes*.

13. Existing AS 21 provides clarification regarding disclosure of parent's share in post-acquisition reserves of a subsidiary. The same has not been dealt with in the Exposure Draft of AS 21 (Revised 20XX).

14. Existing AS 21 does not provide guidance on consolidation of Special Purpose Entities (SPEs), whereas Appendix A of the Exposure Draft of AS 21 (Revised 20XX) provides guidance on the same.