

Accounting Standards Interpretation (ASI) 25¹

Exclusion of a subsidiary from consolidation

Accounting Standard (AS) 21, Consolidated Financial Statements

[Pursuant to the issuance of this Accounting Standards Interpretation, General Clarification (GC) – 17/2002, issued in October 2002, stands withdrawn.]

ISSUE

1. 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.

CONSENSUS

2. 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).

BASIS FOR CONCLUSIONS

3. Paragraph 11 of AS 21 provides as under:

“11. A subsidiary should be excluded from consolidation when:

(a) control is intended to be temporary because the

¹ Published in 'The Chartered Accountant', March 2004, pp. 968. The authority of this ASI is the same as that of the Accounting Standard to which it relates. The contents of this ASI are intended for the limited purpose of the Accounting Standard to which it relates. ASI is intended to apply only to material items.

subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future; or

- (b) it operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent.*

In consolidated financial statements, investments in such subsidiaries should be accounted for in accordance with Accounting Standard (AS) 13, Accounting for Investments. The reasons for not consolidating a subsidiary should be disclosed in the consolidated financial statements.”

In view of the above, merely holding all the shares as ‘stock-in-trade’, is not sufficient to be considered as temporary control within the meaning of paragraph 11(a) above. It is only when 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 would be considered to be temporary within the meaning of paragraph 11(a).