

Indian Accounting Standard (Ind AS) 27

Consolidated and Separate Financial Statements

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Indian Accounting Standard (Ind AS) 27

Consolidated and Separate Financial Statements

*(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles).*

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 Ind AS 103 *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.

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 Ind AS 28 *Investments in Associates* and Ind AS 31 *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 [Refer to Appendix 1]

Presentation of Consolidated Financial Statements

9 A parent, shall present consolidated financial statements in which it consolidates its investments in subsidiaries in accordance with this Standard.

10 (Refer to Appendix 1)

11 A parent presents separate financial statements in compliance with paragraphs 38–43.

Scope of Consolidated Financial Statements

12 Consolidated financial statements shall include all subsidiaries of the parent.¹

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:²

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

¹ If on acquisition a subsidiary meets the criteria to be classified as held for sale in accordance with Ind AS 105 *Non-current Assets Held for Sale and Discontinued Operations*, it shall be accounted for in accordance with that Indian Accounting Standard.

² See also Appendix A Consolidation—Special Purpose Entities.

- (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
- (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 shares³, 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 Ind AS 108 *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 Ind AS 103 *Business Combinations*, which describes the treatment of any resultant goodwill);

³ In Indian context, the term 'ordinary shares' is equivalent to 'equity shares'.

- (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:
 - (i) the amount of those non-controlling interests at the date of the original combination calculated in accordance with Ind AS 103 *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. Ind AS 12 *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 Ind AS 103 *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 Indian 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 Indian 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 Ind AS 39 *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 For preparing separate financial statements the entity shall account for investments in subsidiaries, jointly controlled entities and associates either:

- (a) at cost, or
- (b) in accordance with Ind AS 39

The entity shall apply the same accounting for each category of investments. Investments accounted for at cost shall be accounted for in accordance with Ind AS 105 *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 Ind AS 105. The measurement of investments accounted for in accordance with Ind AS 39 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 are applied by an entity for preparing separate financial statements that comply with Indian Accounting Standards. The entity also produces consolidated financial statements available for public use as required by paragraph 9, unless exempted under law.

40 Investments in jointly controlled entities and associates that are accounted for in accordance with Ind AS 39 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 [Refer to Appendix 1]

43 Separate financial statements of a parent, venturer with an interest in a jointly controlled entity or an investor in an associate shall disclose:

- (a) the fact that the statements are separate financial statements;**
- (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 Ind AS 28 and Ind AS 31 to which they relate.

Appendix A

This Appendix is an integral part of Indian Accounting Standard (Ind AS) 27.

Consolidation—Special Purpose Entities

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 Ind AS 27 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 Ind AS 19 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 Indian Accounting Standards

This Appendix is an integral part of Indian Accounting Standard (Ind AS) 27.

1. Appendix A, *Distribution of Non-cash Assets to Owners* contained in Ind AS 10 *Events after the Reporting Period* makes reference to this Standard also.
2. Appendix A, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* contained in Ind AS 37 *Provisions, Contingent Liabilities and Contingent Assets* (makes reference to this Standard also.

Appendix 1

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

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the differences between Indian Accounting Standard (Ind AS) 27 and the corresponding International Accounting Standard (IAS) 27, Consolidated and Separate Financial Statements and SIC 12, Consolidation—Special Purpose Entities.

1. Paragraphs 8, 10 and 42 have been deleted and paragraphs 11, 39 and 43 have been modified as the applicability or exemptions to the Indian Accounting Standards is governed by the Companies Act and the Rules made thereunder. However, paragraph numbers 8, 10 and 42 have been retained in Ind AS 27 to maintain consistency with paragraph numbers of IAS 27.
2. The transitional provisions given in IAS 27 have not been given in Ind AS 27, since all transitional provisions related to Ind ASs, wherever considered appropriate have been included in Ind AS 101, *First-time Adoption of Indian Accounting Standards* corresponding to IFRS 1, *First-time Adoption of International Financial Reporting Standards*.
3. Different terminology is used, as used in existing laws e.g., the term 'balance sheet' is used instead of 'Statement of financial position' and 'Statement of profit and loss' is used instead of 'Statement of comprehensive income'.