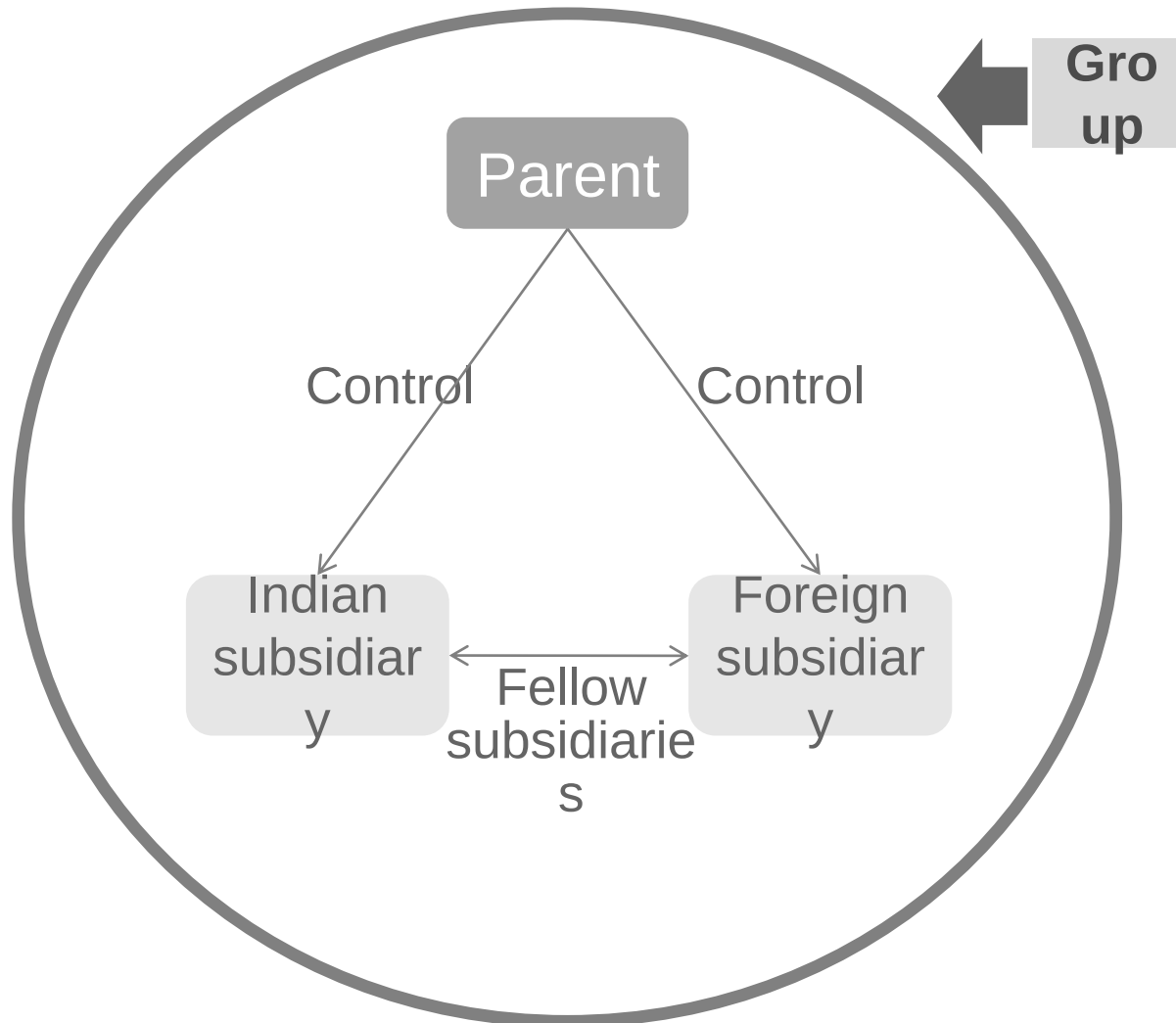


Consolidation

What is a 'group'?



Financial statements prepared by parent

Separate financial statements

- ▶ investments accounted for at:
 - ▶ cost, or
 - ▶ in accordance with Ind AS 109

Consolidated financial statements

- ▶ financial statements of a group
- ▶ parent and subsidiaries presented as a single economic entity

Components of consolidated financial statements

consolidated balance sheet

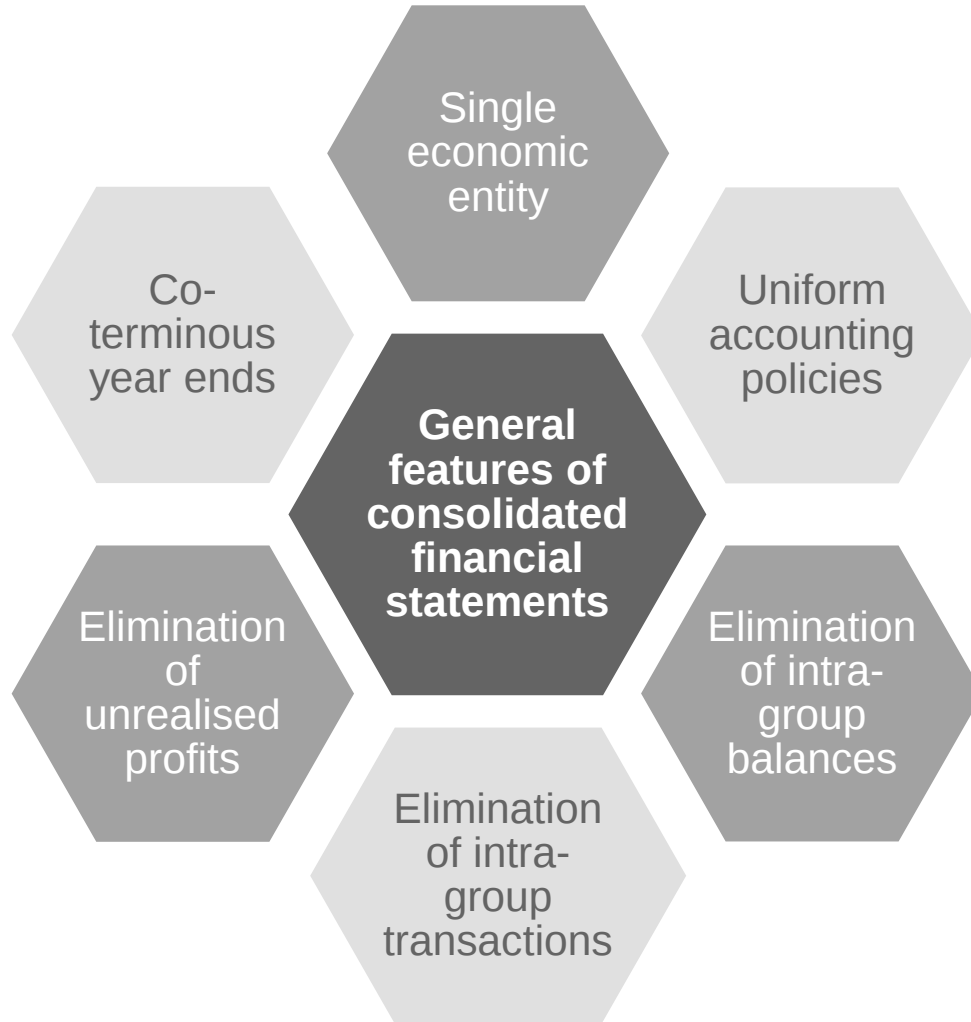
consolidated statement of profit or loss and other comprehensive income

consolidated statement of changes in equity

consolidated statement of cash flows

notes comprising significant accounting policies and other explanatory information

Features of consolidated financial statements



Different reporting date of subsidiary

- ▶ **Step I:** Prepare special statements of subsidiary as at the same date as the group
- ▶ **Step II:** If step I is impracticable, use financial statements of subsidiary subject to:
 - ▶ difference ≤ 3 months
 - ▶ adjustments for effects of significant transactions/ events between these dates

Exemption from preparing consolidated financial statements by parent

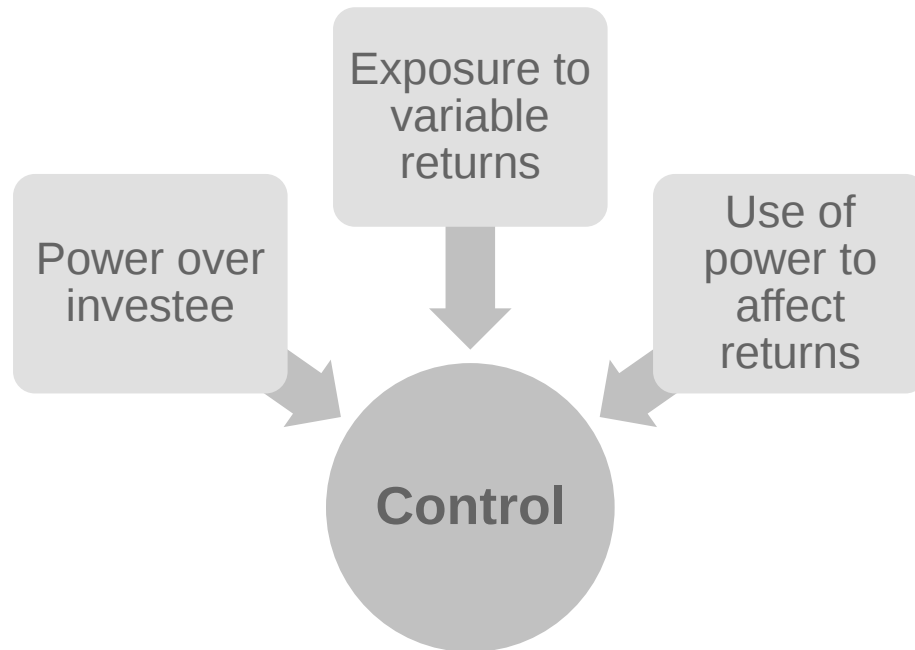
Status
of
parent

- ▶ wholly-owned; or partially-owned as long as other shareholders have no objection
- ▶ debt/ equity not traded on public market
- ▶ not filed its financial statements with a recognised stock exchange

Status of
ultimate
(or
intermedi
ate)
parent

- ▶ presents consolidated financial statements in accordance with Ind AS

Control



Understand purpose
and design of investee

- ▶ Investor to consider all facts and circumstances for control assessment
- ▶ Control principles equally applicable to structured entities (also known as SPEs)

Power over an investee

- ▶ Investor has power when it has existing rights that give it the current ability to direct the relevant activities; even if rights not exercised
 - ▶ unilateral ability to direct (and not unanimous consent)
- ▶ Power may be achieved through:
 - ▶ voting rights, e.g., majority voting rights
 - ▶ rights arising from contractual arrangements
- ▶ Investor can have power even if other entities have existing rights that give them the current ability to *participate* in the direction of relevant activities

Two critical concepts

- ▶ relevant activities
- ▶ existing rights

Exposure to variable returns

Variable returns are returns that are not fixed and have the potential to vary as a result of performance of investee

- ▶ Returns may be positive, negative or both
- ▶ Other parties, e.g., NCI can also share in the returns
- ▶ Examples
 - ▶ dividends, variable interest on debt securities, distributions of economic benefits, changes in the value of investment
 - ▶ Remuneration for servicing investee's assets/ liabilities, fees and exposure to loss from providing credit or liquidity support, residual interests on liquidation, tax benefits
 - ▶ synergies, cost savings, economies of scale, scarce resources, proprietary knowledge **not available to other investors** (even though not directly received from investee)

Focus on existence of exposure to variable returns, not the amount of the exposure

Link between power and returns - delegated rights

- ▶ An agent is a party engaged to act on behalf of another party (the principal)
- ▶ A principal may delegate some or all decision-making authority to the agent
- ▶ An agent does not control an investee
- ▶ All facts and circumstances must be considered