

Limited Revision to Accounting Standard (AS) 21 (issued 2001)

The following is the text of the limited revision to AS 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India.

In view of the proposed Accounting Standard (AS) 30, *Financial Instruments: Recognition and Measurement*, AS 21 (issued 2001) is modified as under (modifications are shown as double-underline/strike-through):

1. The name of the Standard is modified as below:

Consolidated Financial Statements and Accounting for Investments in Subsidiaries in Separate Financial Statements

2. The ‘Applicability’ paragraph of the Standard is amended as follows:

Accounting Standard (AS) 21 (issued 2001), *Consolidated Financial Statements and Accounting for Investments in Subsidiaries in Separate Financial Statements*, issued by the Council of the Institute of Chartered Accountants of India, comes into effect in respect of accounting periods commencing on or after 1-4-2001. This limited revision to the Standard comes into effect in respect of accounting periods commencing on or after the date on which Accounting Standard (AS) 30, *Financial Instruments: Recognition and Measurement*, comes into effect. In respect of separate financial statements of an enterprise, this limited revision comes into effect from the same date. In respect of consolidated financial statements, this Accounting Standard is mandatory¹ where the enterprise prepares and presents consolidated financial statements. In other words, the accounting standard does not mandate an enterprise to present consolidated financial statements but, if the enterprise presents consolidated financial statements, for a period commencing on or after the date on which this Standard first came into effect, i.e., 1-4-2001, for complying with the requirements of any statute or otherwise, it should prepare and present consolidated financial statements in accordance with this Standard. An enterprise that presents

¹ 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.

consolidated financial statements should prepare and present these statements in accordance with this Standard.²

The following is the text of the Accounting Standard.

3. The ‘Objective’ paragraph of the Standard is amended as follows:
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The objective of this Statement is to lay down principles and procedures for preparation and presentation of consolidated financial statements and for accounting for investments in subsidiaries in separate financial statements. Consolidated financial statements are presented by a parent (also known as holding enterprise) to provide financial information about the economic activities of its group. These statements are intended to present financial information about a parent and its subsidiary(ies) as a single economic entity to show the economic resources controlled by the group, the obligations of the group and results the group achieves with its resources.

4. The ‘Scope’ paragraphs of the Standard are amended as follows:
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Scope

1. *This Statement should be applied in the preparation and presentation of consolidated financial statements for a group of enterprises under the control of a parent.*

2. *This Statement should also be applied in accounting for investments in subsidiaries in the separate financial statements of a parent.*

3. In the preparation of consolidated financial statements, other Accounting Standards also apply in the same manner as they apply to the separate financial statements.

4. This Statement does not deal with:

- (a) methods of accounting for amalgamations and their effects on consolidation, including goodwill arising on amalgamation (see AS 14, *Accounting for Amalgamations*);

² It is clarified that AS 21 is mandatory if an enterprise presents consolidated financial statements. In other words, the accounting standard does not mandate an enterprise to present consolidated financial statements but, if the enterprise presents consolidated financial statements for complying with the requirements of any statute or otherwise, it should prepare and present consolidated financial statements in accordance with AS 21 (see ‘The Chartered Accountant’, July 2001, page 95).

- (b) accounting for investments in associates (at present governed by see AS 1323, *Accounting for Investments in Associates*³); and
- (c) accounting for investments interests in joint ventures (at present governed by see AS 1327, *Accounting for Investments Financial Reporting of Interests in Joint Ventures*⁴).

5. Paragraph 11 is amended as follows:

11. A subsidiary should be excluded from consolidation when:

- (a) *control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future*⁵; 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) 1330, Accounting for Investments Financial Instruments: Recognition and Measurement. The reasons for not consolidating a subsidiary should be disclosed in the consolidated financial statements.

6. After paragraph 11, new paragraph 11A is added. New paragraph 11A is as follows:

11A. A subsidiary is not excluded from consolidation simply because the parent is a venture capital organisation or a similar entity.

7. Paragraphs 23 and 24 are amended as follows:

23. An investment in an enterprise should be accounted for in accordance with Accounting Standard (AS) 1330, Accounting for Investments Financial Instruments: Recognition and

³ Accounting Standard (AS) 23, 'Accounting for Investments in Associates in Consolidated Financial Statements', which came into effect in respect of accounting periods commencing on or after 1-4-2002, specifies the requirements relating to accounting for investments in associates in Consolidated Financial Statements.

⁴ Accounting Standard (AS) 27, 'Financial Reporting of Interests in Joint Ventures', which came into effect in respect of accounting periods commencing on or after 1-4- 2002, specifies the requirements relating to accounting for investments in joint ventures.

⁵ See also Accounting Standards Interpretations (ASIs) 8 and 25.

Measurement, from the date that the enterprise ceases to be a subsidiary, and provided that it does not become an associate as defined in AS 23 or a jointly controlled entity as described in AS 27⁶.

24. The carrying amount of the investment at the date that it the enterprise ceases to be a subsidiary is regarded as the cost on initial measurement of a financial asset in accordance with AS 30 thereafter.

8. Paragraph 28, appearing under the heading ‘Accounting for Investments in Subsidiaries in a Parent’s Separate Financial Statements’ is amended. New paragraph 28A is added. Amended paragraph 28 and new paragraph 28A are as follows:

Accounting for Investments in Subsidiaries in a Parent’s Separate Financial Statements

28. In a parent’s separate financial statements, investments in subsidiaries, except investments in subsidiaries covered under paragraph 11 of this Statement, should be accounted for either: in accordance with Accounting Standard (AS) 13, Accounting for Investments

(a) at cost, or

(b) in accordance with AS 30, Financial Instruments: Recognition and Measurement.

The same accounting should be applied for each category of investments. Investments in subsidiaries covered under paragraph 11 of this Statement should be accounted for in accordance with Accounting Standard (AS) 30, Financial Instruments: Recognition and Measurement.

28A. To determine whether an investment in a subsidiary accounted for at cost in accordance with paragraph 28 is impaired, an enterprise applies AS 28, *Impairment of Assets*. AS 28 which explains how an enterprise reviews the carrying amount of its assets, how it determines the recoverable amount of an asset, and when it recognises, or reverses the recognition of, an impairment loss is also applicable to impairment of an investment in a subsidiary.

⁶ Accounting Standard (AS) 23, ‘Accounting for Investments in Associates in Consolidated Financial Statements’, which came into effect in respect of accounting periods commencing on or after 1.4.2002, defines the term ‘associate’ and specifies the requirements relating to accounting for investments in associates in Consolidated Financial Statements.