Limited Revision to
Accounting Standard (AS) 23 (issued 2001)

The following is the text of the limited revision to AS 23, Accounting for Investments in Associates in Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India.

In view of Accounting Standard (AS) 30, *Financial Instruments: Recognition and Measurement,* AS 23 (issued 2001) is modified as under (modifications are shown as double-underline/ strike-through):

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

Accounting for Investments in Associates in Consolidated Financial Statements

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

Accounting Standard (AS) 23 (issued 2001), *Accounting for Investments in Associates in Consolidated Financial Statements*, issued by the Council of the Institute of Chartered Accountants of India, comes came into effect in respect of accounting periods commencing on or after 1-4-2002. 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 Standard is mandatory[1] where the enterprise prepares and presents consolidated financial statements. In other words, if An an enterprise prepares and that presents consolidated financial statements, for a period commencing on or after the date on

[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.

which this Standard first came into effect, i.e., 1-4-2002, it should account for investments in associates in the consolidated financial 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:

The objective of this Statement is to set out principles and procedures for recognising, in the consolidated financial statements, the effects of the investments in associates on the financial position and operating results of a groupin the consolidated financial statements of a group and for accounting for investments in associates in the separate financial statements of an investor.

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

1. This Statement should be applied in accounting for investments in associates in the preparation and presentation of separate as well as consolidated financial statements by an investor. However, it does not apply to investments in associates held by:

> ***(a) venture capital organisations, or***
>
> ***(b) mutual funds, unit trusts and similar entities including investment-linked insurance funds***
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> ***that upon initial recognition are designated as at fair value through profit or loss and accounted for in accordance with AS 30, Financial Instruments: Recognition and Measurement. Such investments should be measured at fair value in accordance with AS 30, with changes in fair value recognised in the statement of profit and loss in the period of the change.***

2. The requirements relating to accounting for investments in associates in consolidated financial statements, contained in this Statement, are applicable only where consolidated financial statements are prepared and presented by the investor. This Statement does not deal with accounting for investments in associates in the preparation and presentation of separate financial statements by an investor.[3]

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[2] It is clarified that AS 23 is mandatory if an enterprise presents consolidated financial statements. In other words, if an enterprise presents consolidated financial statements, it should account for investments in associates in the consolidated financial statements in accordance with AS 23 from the date of its coming into effect, i.e., 1-4-2002 (see 'The Chartered Accountant', July 2001, page 95).

[3] Accounting Standard (AS) 13, 'Accounting for Investments', is applicable for accounting for investments in associates in the separate financial statements of an investor.

5. Paragraph 7 is amended as follows:

7. An investment in an associate should be accounted for in consolidated financial statements under the equity method except when:

(a) the investment is acquired and held exclusively with a view to its subsequent disposal in the near future[4]; or

(b) the associate operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor.

Investments in such associates should be accounted for in accordance with Accounting Standard (AS) 1330, Accounting for InvestmentsFinancial Instruments: Recognition and Measurement. The reasons for not applying the equity method in accounting for investments in an associate should be disclosed in the consolidated financial statements.

6. Paragraph 9 is amended as follows:

9. An investor should discontinue the use of the equity method from the date that:

(a) it ceases to have significant influence in an associate but retains, either in whole or in part, its investment; or

(b) the use of the equity method is no longer appropriate because the associate operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor.

From the date of discontinuing the use of the equity method, investments in such associates should be accounted for in accordance with Accounting Standard (AS) 1330, Accounting for InvestmentsFinancial Instruments: Recognition and Measurement. For this purpose, the carrying amount of the investment at that date should be regarded as its cost thereafteron initial measurement as a financial asset in accordance with AS 30.

7. The existing paragraph 20 is deleted. After the existing paragraph 19, new paragraphs 20, 20A, 20B and 20C under the heading 'Impairment Loss' and new paragraphs 20D and 20E under the heading 'Separate Financial Statements of an Investor' are added. New paragraphs are as follows:

[4] See also Accounting Standards Interpretation (ASI) 8.

***20.	The carrying amount of investment in an associate should be reduced to recognise a decline, other than temporary, in the value of the investment, such reduction being determined and made for each investment individually.***

Impairment losses

20.	After applying the equity method, including recognising the associate's losses in accordance with paragraph 18, the investor applies the requirements of AS 30 to determine whether it is necessary to recognise any additional impairment loss with respect to the investor's net investment in the associate.

20A.	The investor also applies the requirements of AS 30 to determine whether any additional impairment loss is recognised with respect to the investor's interest in the associate that does not constitute part of the net investment and the amount of that impairment loss.

20B.	Because goodwill included in the carrying amount of an investment in an associate is not separately recognised, it is not tested for impairment separately by applying the requirements for testing of impairment of goodwill in AS 28, *Impairment of Assets*. Instead, the entire carrying amount of the investment is tested under AS 28 for impairment, by comparing its recoverable amount (higher of net selling price and value in use) with its carrying amount, whenever application of the requirements in AS 30 indicates that the investment may be impaired. In determining the value in use of the investment, an enterprise estimates:

(a)	its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or

(b)	the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Under appropriate assumptions, both methods give the same result.

20C.	The recoverable amount of an investment in an associate is assessed for each associate, unless the associate does not generate cash inflows from continuing use that are largely independent of those from other assets of the enterprise.

Separate Financial Statements of an Investor

***20D.	In an investor's separate financial statements, investments in associates, except investments in associates covered under paragraph 7 of this Statement, should be accounted for either:***

(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 associates covered under paragraph 7 of this Statement should be accounted for in accordance with Accounting Standard (AS) 30, Financial Instruments: Recognition and Measurement.

20E. To determine whether an investment in an associate accounted for at cost in accordance with paragraph 20D 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 an associate.

8. Paragraph 21 is amended as follows:

21. In accordance with Accounting Standard (AS) 429, *Provisions, Contingent Liabilities and Contingent Assets*Contingencies and Events Occurring After the Balance Sheet Date[5], the investor discloses in the separate as well as the consolidated financial statements:

(a) its share of the contingencies and capital commitments contingent liabilities of an associate incurred jointly with other investorsfor which it is also contingently liable; and

(b) those contingencies contingent liabilities that arise because the investor is severally liable for all or part of the liabilities of the associate.

9. The name of AS 21, appearing in paragraph 10 of the Standard, is changed to reflect the proposed new name of AS 21, viz., the following: ***AS 21, Consolidated Financial Statements and Accounting for Investments in Subsidiaries in Separate Financial Statements***

[5] Pursuant to AS 29, Provisions, Contingent Liabilities and Contingent Assets, becoming mandatory in respect of accounting periods commencing on or after 1.4.2004, all paragraphs of AS 4 that deal with contingencies stand withdrawn except to the extent they deal with impairment of assets not covered by other Indian Accounting Standards.