Accounting standard no 21
Basic principles of consolidation

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Comparative international standards and highlights

- IAS 27 Consolidated Financial Statements
- Snapshot
  - Key objective:
    - To provide for preparation and presentation of consolidated financial statements in the books of a holding company
  - Related accounting standards
    - Investments in associates
    - Investments in Joint ventures
- Comparison between IAS and AS
  - The definition of “subsidiary” itself
    - Under IAS 27, it is based on “control”
    - Under AS 21 it is based on ownership of voting capital
  - IAS 27 has been expanded by SIC 12 to include quasi-subsidiaries as well
  - Separate financial statements of parent companies
    - Provides for accounting as per AS 13/ AS 30
    - IAS has more detailed provisions about separate financial statements as well

Scope

- Two types of accounts of holding companies
  - Group financial statements
    - Consolidating financial statements of subsidiaries
  - Separate financial statements

Key definitions

- Subsidiaries and parents
  - Subsidiary is one which is “controlled” by a parent
  - Need not be a company
    - Subsidiary can be any type of organisation
- Control
  - Ownership, directly or indirectly through one or more subsidiaries, of more than half of voting power of an enterprise
  - Controlling composition of board of directors in case of a company or governing council so as to obtain economic benefits from the enterprise
- Analysis of definition of control
  - Deliberately set so as to avoid conflict with Companies Act definition
- Subsidiaries under Companies Act
  - Are these examples of subsidiaries:
    - A controls B
    - A controls B, B controls C
    - A controls B and C. B and C together control D

Exceptions to consolidation

- There are two exceptions
  - Where control is temporary
  - Subsidiary operates under long term restrictions which significantly impair its ability to transfer funds to parent
- What if activities of the subsidiary are totally different from the parent?
  - Not a valid ground for not doing consolidation

Consolidation procedures

- Line by line consolidation of assets/liabilities/incomes and exps of the subsidiary
  - Investment of the parent in the capital of the subsidiary (A), and parent's portion of the equity of the subsidiary (B), should be eliminated
    - If is A is more than B, A-B is goodwill
    - If B is more than A, B-A is capital reserve
    - This determination is done on the date of investment in the subsidiary
  - Minority interest in the net income of the subsidiary should be adjusted against group income
  - Minority interest in the net assets should be identified and reflected separately from the liabilities and equity of the parent
  - Intra-group balances and intra group transactions, and any unrealised profits should be eliminated completely
    - Unrealised losses are also eliminated, but may reflect impairment
  - Financial statements are drawn upto the same date
    - However, if it is not practical to prepare on the same date, a gap of not more than 6 months is permissible
  - Uniform accounting policies

De-subsidiarisation

- From the date on which the holding-subsidiary relation ceases, the difference between the proceeds of investment, and the carrying amount of net assets on the balance sheet of the parent, is recognised as profit/loss

Accounting in separate financial statements

- **AS 13 (now AS 30) should be applied**