# IND AS 110: CONSOLIDATED FINANCIAL STATEMENTS

# OBJECTIVE

To Prepare Consolidated financial statement (CFS) of the entity who controls one or more entity by identifying the control over other entity.

# SCOPE & EXEMPTION FROM PREPARING CFS

1. An entity that is a parent shall present CFS.
2. Following Parents may be Exempted from preparing CFS:

   a) A parent need not present CFS if it meets all the following conditions:
   - It is a wholly-owned subsidiary; or a partially-owned subsidiary whose owners have been informed and they have not objected for not presenting CFS.
   - Unlisted Entity
   - It did not file, nor is it in the process of listing or issuing any instrument to raise fund from public; and
   - Its ultimate or any intermediate parent produces CFS that are available for public use and comply with Ind AS.

# EXEMPTION FROM PREPARING CFS….

b) The entity which is a Post-employment benefit plans or other long-term employee benefit plans to which Ind AS19, Employee Benefits, applies.

c) An investment entity who measures all of its subsidiaries at fair value through profit or loss in accordance with Ind AS 109 (Financial Instruments)

**Exclusion to Exemption :**

1. Subsidiary of such entity who provide service to investment entity regarding its investment activity.
2. Holding company of Investment co which is not an investment co.

# DEFINITION

1. Non-controlling interest

   Equity in a subsidiary not attributable, directly or indirectly, to a parent.

2. Power

   Existing rights that give the current ability to direct the relevant activities.

3. Protective rights

   Rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate.

4. Relevant activities

   For the purpose of this Ind AS, relevant activities are activities of the investee that significantly affect the investee's returns.

# Control

An investor **controls** an investee if and only if the investor has all the following:-

| | |
|---|---|
| Power | • Existing rights to direct relevant activities |
| Exposure or rights to variable returns; and | • Possible variability to positive and negative returns |
| Investor ability to affect returns using their power. | • Necessary to determine who "makes decisions" is an agent or Principal |

# What is power?

Power derives from **existing rights** to direct **relevant activities**.

| | |
|---|---|
| Rights | • Depends on the nature of the activities, legal and decision-making structure.<br>• Voting rights, potential voting rights and contractual rights.<br>• Should evaluate the potential impact of rights. |
| Substantive | • Practical ability to exercise rights.<br>• Actual capacity to direct relevant activities.<br>• It is not necessary for rights to be actively exercised. |
| Relevant activities | • Activities that have a considerable effect on the profitability of the entity.<br>• For examples, purchases/sales, management of financial assets, debt, etc.<br>• Decisions over relevant activities: budget, personnel decisions, investment decisions. |

**Note**: Protective rights do not provide power, nor do they preclude ability for a third party to have power

# Testing of Control through Power

## Votes

**> 50%**

Should consider rights of minority shareholders

**< 50%**

Control via “de facto power,”

substantive (potential) voting rights and other contractual rights

## Other

- Contractual rights
- Practical abilities
- Special relationships
- Role of variable returns (e.g. debt and purchase/sale arrangements)

# CONSIDERATION WHILE ASSESSING CONTROL

Some or all of the following factors may assist to determine whether investor controls investee:-

I. Purpose and design of the investee.
II. What the relevant activities of Investee are and how decisions about those activities are made.
III. Whether the rights of the investor give it the current ability to direct the relevant activities.
IV. Investor has exposure, or rights, to variable returns from an investee.
V. Investor has ability to use its power over the investee to affect the amount of the its return.

# ASSESSING CONTROL (through Purpose and Design)

I. In assessing the Purpose and Design of the Investee consider,

- The relevant activities.
- How decision about relevant activities are made.
- Who has the current ability to direct those activities.
- Who receives returns from those activities.

Example on Purpose and Design

# ASSESSING CONTROL (Relevant activities)

II. What the relevant activities are and how decisions about those activities are made;

Examples of operating and financing activities significantly affect investor returns:-

- Selling and purchasing of goods or services;
- Managing financial assets;
- Selecting, acquiring or disposing of assets;
- Researching and developing new products or processes;
- Determining a funding structure or obtaining funding

Examples of decisions about relevant activities:-

- Establishing operating and capital decisions of the investee, including budgets;
- Appointing and remunerating an investee's KMP or service providers and terminating their services or employment.

If two or more able to direct relevant activities than identify who will be able to direct most significantly.

# ASSESSING CONTROL (Rights that give current ability to direct)

III. Whether the rights of the investor give it the current ability to direct the relevant activities;

Rights either individually or in combination, can give an investor power include

- Rights in the form of voting rights (incl potential voting rights) of an investee
- Rights to appoint, reassign or remove members of an investee's KMP, or other entity that has the ability to direct the relevant activities;
- Rights to direct the investee to enter into, or veto any changes to transactions for the benefit of the investor;
- Other rights that gives holder the ability to direct the relevant activities.

Example

# ASSESSING CONTROL (More than Passive Rights that give an investor power over an investee)…

III) (Continued)

Investor having more than a passive interest in the investee may indicate that the investor has other related rights sufficient to give it power or provide evidence of existing power over an investee. Examples:-

- The investee's KMP who have the ability to direct the relevant activities are current or previous employees of the investor.
- The investee's operations are dependent on the investor (funding, guarantee, critical service, technology),
- A significant portion of investee activity are conducted on behalf of investor,

# ASSESSING CONTROL ( Right must be Substantive not Protective)

III) (Continued)

**Substantive Rights**

- Decision – making right and practical ability to do so is an substantive right.
- There are no barriers in exercising rights.( Barriers like Financial barriers, unfavorable terms and conditions, absence of mechanism to exercise the right etc.)

**Protective Rights**

- Protective right are designed to protect the interest of their holders without giving the investor power over the investee ( e.g. Seizure of assets by lender upon default.)
- This rights are exercised only on occurrence of some exceptional circumstances.
- Franchise Arrangements

# ASSESSING CONTROL (through Majority Voting Rights)

III) (Continued)

An investor that holds more than half of the voting rights of an investee has power in the following situations:-

- The relevant activities are directed by a vote of the majority voting rights, or
- The majority of the members of the governing body that directs the relevant activities are appointed by a vote of the holder of the majority voting rights.

However to have Power:-

a. The investor's voting rights must be substantive;
b. He must have the practical ability to exercise that right; and
c. The right shall provide the investor with the current ability to direct the relevant activities.

# ASSESSING CONTROL (through Minority Voting Rights)…

An investor can have power even with less than a majority voting rights of an investee:-

i. A contractual arrangement between the investor and other vote holders;

ii. Rights arising from other contractual arrangements (i.e. Other decision-making rights, in combination with voting rights) (e.g. Current ability to direct the manufacturing processes of an investee or to direct other operating or financing activities of an investee that significantly affect the investee's returns);

iii. The investor's voting rights i.e.

- The size of the investor's holding of voting rights relative to the size and dispersion of holdings of the other vote holders; and
- Practical ability to direct the relevant activities unilaterally (Example)

iv. Potential voting rights are considered only if Substantive. (e.g. investor holds 40% and has substantive rights arising from options to acquire further 20%; or

v. A combination of (i)–(iv).

# ASSESSING CONTROL (Exposure, or rights, to variable returns from an investee)

IV. Whether the investor is exposed, or has rights, to variable returns from its involvement with the investee. Variable return include:-

- Dividends, other distributions of economic benefits from an investee (e.g. Fixed or variable interest from debt securities issued by the investee) and changes in the value of the investor's investment in that investee.
- Remuneration for servicing an investee's assets or liabilities, fees and exposure to loss from providing credit or liquidity support, residual interests in the investee's assets and liabilities on liquidation of that investee, tax benefits, and access to future liquidity that an investor has from its involvement with an investee.
- Returns that are not available to other interest holders. e.g. investor might use its assets in combination with the assets of the investee, such as combining operating functions to achieve economies of scale, cost savings, sourcing scarce products, gaining access to proprietary knowledge or limiting some operations or assets, to enhance the value of the investor's other assets.

# ASSESSING CONTROL (Investor's ability to use its power over the investee )

V. Whether the investor has the ability to use its power over the investee to affect the amount of the investor's return:-

- Investor with decision-making rights shall determine whether it is a principal or an agent;
- The greater the magnitude of, and variability associated with, its economic interests, considering its remuneration and other interests in aggregate, the more likely the decision maker is a principal.

# Consolidation Procedures

- Combine assets, liabilities, income, expenses, cash flows of the parent and subsidiary.
- Eliminate parent's investment in each subsidiary with its portion of the subsidiary's equity.
- Fully eliminate intra group transactions and balances.

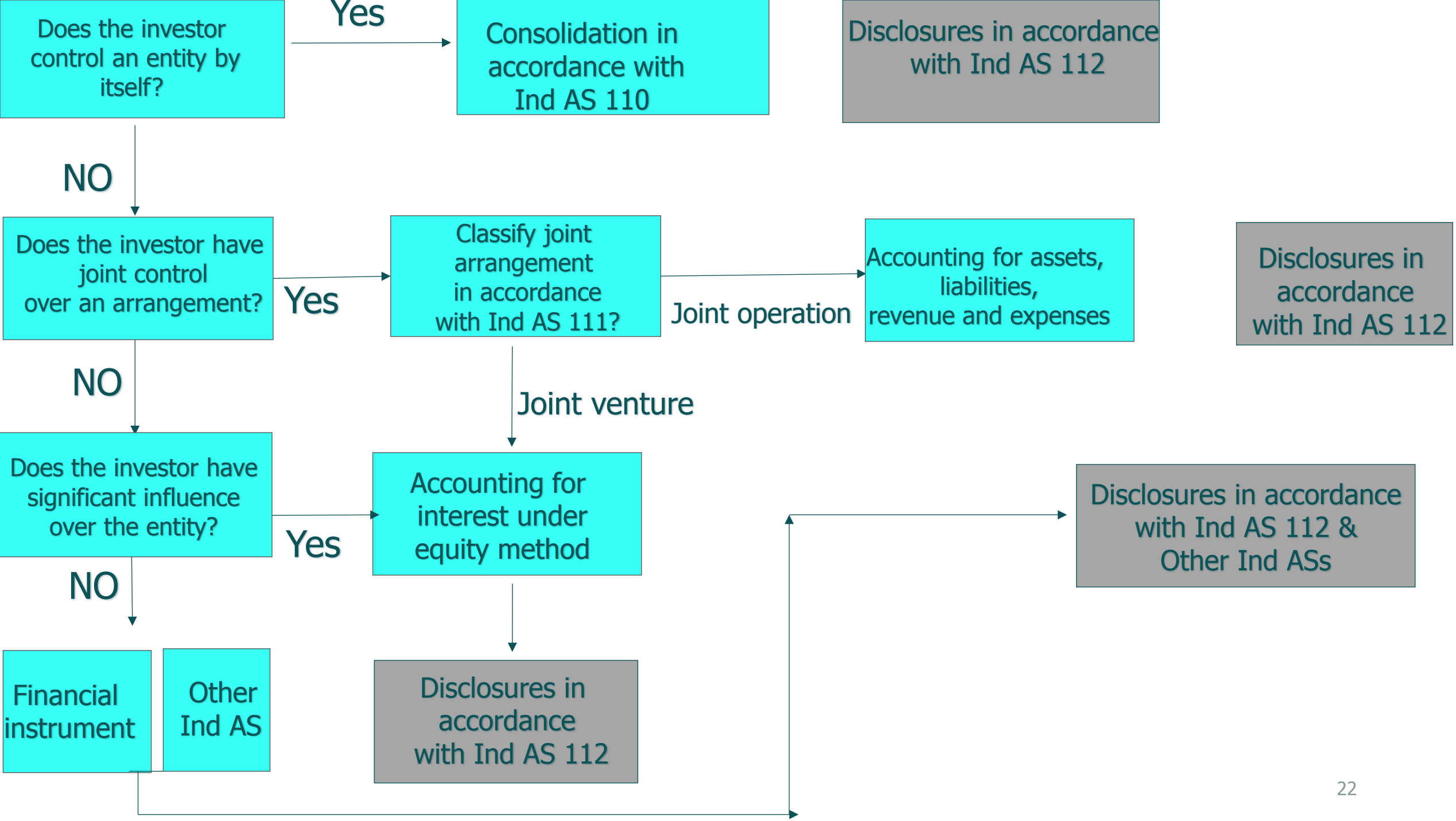
# ACCOUNTING REQUIREMENTS

- It is mandatory to follow uniform accounting policies for preparing CFS.
- Appropriate adjustments are made to that group member's financial statements in preparing the CFS to ensure conformity with the group's accounting policies.
- Consolidation of an investee shall begin from the date the investor obtains control of the investee and cease when the investor loses control of the investee.
- Difference between the reporting date of the subsidiary and the parent should not be more than three months and appropriate adjustment must be made for all significant transaction during this differential period.

# Accounting based on Joint Control

- In Case Where Two or more investors collectively control an investee and they must act together to direct the relevant activities.

- Each investor would account for its interest in the investee in accordance with the relevant Ind AS's, such as Ind AS 111- Joint Arrangements, AS 28 - Investments in Associates and Joint Ventures or Ind AS 109 - Financial Instruments, because no investor can direct the activities without the co-operation of the others.


Does the investor control an entity by itself?
Yes
Consolidation in accordance with Ind AS 110
Disclosures in accordance with Ind AS 112
NO
Does the investor have joint control over an arrangement?
Yes
Classify joint arrangement in accordance with Ind AS 111?
Joint operation
Accounting for assets, liabilities, revenue and expenses
Disclosures in accordance with Ind AS 112
NO
Joint venture
Does the investor have significant influence over the entity?
Yes
Accounting for interest under equity method
Disclosures in accordance with Ind AS 112 & Other Ind ASs
NO
Financial instrument
Other Ind AS
Disclosures in accordance with Ind AS 112

# NON CONTROLLING INTEREST

- A parent shall present non-controlling interests in the consolidated balance sheet within equity, separately from the equity of the owners of the parent.

- An entity shall attribute the profit or loss and each component of OCI to the owners of the parent and to the non-controlling interest, even if this results in the non-controlling interests having a negative balance.

Example

# LOSS OF CONTROL

If a parent loses control of a subsidiary, the parent:

- Derecognizes the assets(including goodwill) and liabilities of the former subsidiary from the consolidated balance sheet.
- Recognizes any investment retained in the former subsidiary at its fair value in accordance with Ind AS 109, or when appropriate the cost on initial recognition in an associate or joint venture.
- Recognize the gain or loss associated with the loss of control attributable to the former controlling interest.

# Section 129 (3) of Companies Act, 2013 - CFS

- **Section 129 (3):-**

  Where a company has one or more subsidiaries, it shall, in addition to financial statements provided under sub-section (*2*), prepare a consolidated financial statement of the company and of all the subsidiaries in the same form and manner as that of its own which shall also be laid before the annual general meeting of the company along with the laying of its financial statement under sub-section (*2*).

  **Subsidiary**:- For the purposes of this sub-section, the word "subsidiary" shall include associate company and joint venture.

# COMPARISION

| Topic | Indian GAAP | IND AS |
|---|---|---|
| Scope | It is not mandatory for entities to prepare CFS under AS-21<br><br>If preparing CFS than follow AS 21. | IND AS require an entity having Control over other entity to prepare the CFS.<br><br>IMPACT: Now we need to prepare CFS compulsorily even if entity have only associate and JV considering Ind AS and Companies Act2013. |

| Topic | Indian GAAP | IND AS |
|---|---|---|
| Investment Entity | Not specified. | New concept Investment entity has been defined and accordingly exemption from CFS and exclusion to these exemption has been specified.<br><br>IMPACT: Need to access whether entity is an Investment entity or any of its subsidiary is and Investment entity to apply exemption from CFS after considering all exclusion to exemption. |

| Topic | Indian GAAP | IND AS |
|---|---|---|
| Definition of control | Control is:<br>a) more than one-half of the voting power of an enterprise; or<br><br>b) control of the composition of the board of directors. | Control is based on whether an investor has<br>➢ 1) power over the investee<br>➢ 2) exposure to variable return and<br>➢ 3) the ability to use its power over the investee to affect the amounts of the returns.<br><br><u>IMPACT :</u> An entity need to be Consolidated even with less than majority voting power or no voting power.<br>Control over Associate may require Parent need to consolidate it like a subsidiary and remove other's portion through Non controlling Interest. |

| Topic | Indian GAAP | IND AS |
|---|---|---|
| Dual control | In a rare situation, when an enterprise is controlled by two enterprises – one with majority of the voting power and the other with composition of the board of directors .<br>In such case both the controlling entity will need to consolidate the financial statements of that enterprise. | Only one entity can have control (as distinct from joint control) over another entity. Therefore, entity which control most significantly need to consolidate another entity.<br><br>IMPACT : Management of both controlling entity needs to jointly evaluate their Control before any one consolidate. |
| Potential voting rights | Potential voting rights are not considered in assessing control. | Potential voting rights are considered only if the rights are substantive.<br><br><u>IMPACT:</u> Entity need to evaluate its potential rights on every balance sheet date for consolidation |

| Topic | Indian GAAP | IND AS |
|---|---|---|
| exclusion of subsidiaries, associates and joint ventures | Excluded from consolidation, if investment in another entity is acquired with intent to be disposed off in nearer future; or if another entity operates under severe long-term restrictions to transfer funds to the parent/ investor/venturer. | No such exemption for 'temporary control', or for operation under severe long-term funds transfer Restrictions.<br><br>IMPACT: Parent need to consolidate all entities on which it has control even those which were not consolidate previously due to exclusion under AS 21. |
| Uniform accounting policies | If not practicable to use uniform accounting policies in the preparation of CFS, that fact should be disclosed together with the proportions of the items in the CFS to which different accounting policies have been applied. | Consolidated financial statements should be prepared using uniform accounting policies.<br><br>IMPACT: Need to do appropriate adjustments in financials of member of group while preparing CFS to ensure conformity with the Group accounting policy. |

| Topic | Indian GAAP | IND AS |
|---|---|---|
| Reporting Dates | The difference between thereporting date of the subsidiary and that of the parent should be not more than six months | The difference between the reporting date of the subsidiary and that of the parent should be not more than three months<br><br>NO IMPACT as new companies Act require difference between subsidiary and parent not more than 3 month. |
| Non-controlling interests | Minority interests are presented in the consolidated balance sheet separately from liabilities and the equity of the parent's shareholders. | Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent.<br><br>IMPACT: Need to present below Equity and R&S separately from owners. |

| Topic | Indian GAAP | IND AS |
| --- | --- | --- |
| Allocation of losses to non-controlling interests | Excess of loss applicable to minority to be absorbed by parent unless any binding obligation for minority to make good the losses. | Profit or loss and each component of other comprehensive income should be attributable to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.<br><br>IMPACT : Parent will have to give negative balance to Non controlling interest and also will have to absorb the loss from associate. |

# Thank You