

CHAPTER 23

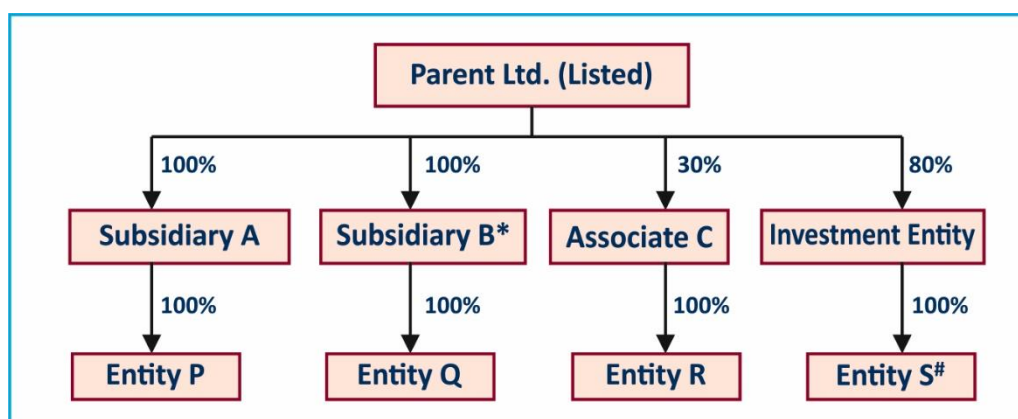
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS OF GROUP ENTITIES

UNIT 4: IND AS 27: SEPARATE FINANCIAL STATEMENTS

ILLUSTRATIONS BASED QUESTIONS FROM ICAI SM

Illustration 1:

Following chart represents the group structure of Parent Ltd. and table below it explains the above requirements related to separate financial statements



* Subsidiary B has availed the exemption from preparation of consolidated financial statements as per paragraph 4(a) of Ind AS 110

Entity S does not provide services that relate to the Investment entity D's investment activities

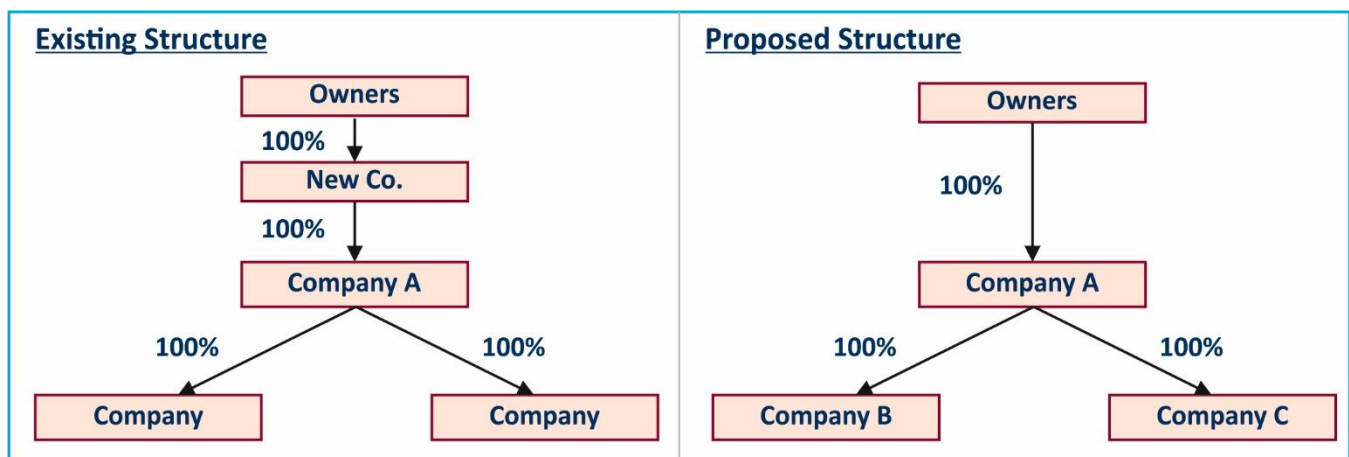
All the above entities are incorporated as per Companies Act, 2013.

Name of the entity	Whether entity prepares consolidated financial statements?	Status for separate financial statements
Parent Ltd.	Yes	Will be prepared as it is required by Companies Act, 2013
Subsidiary A	Yes	Will be prepared as it is required by Companies Act, 2013
Subsidiary B	No	Will be prepared as it is required by Companies Act, 2013 (in this case, entity will present separate financial statements as its only financial statements)
Associate C	Yes	Will be prepared as it is required by Companies Act,

		2013
Investment entity D	No	Will be prepared as it is required by Companies Act, 2013. Entity will present separate financial statements as its only financial statements
Entity P	No	These entities will prepare their financial statements as required by Companies Act 2013, however, they will not be termed as separate financial statements since these entities do not have subsidiary, associate or joint venture.
Entity Q	No	
Entity R	No	
Entity S	No	

Illustration 2: Reorganisation of the group structure

Following is the existing and proposed group structure of an original parent A Ltd.



As per the above structure, the Owners of Company A will transfer all their shareholding in Company A to New Co. In exchange of such shares, New Co. will issue its equity shares to the Owners. New Co. will issue the shares to the owners in the same ratio of their existing holding in Company A so that they have same absolute and relative interests in the net assets of the group immediately before and after the reorganisation. The assets and liabilities of the group immediately before the and after the proposed restructuring will also be the same.

The cost of the investment in Company A in the books of the Owners is ₹ 10 lakh. Total equity of Company A (i.e. equity share capital and other equity attributable to the owners) as per its separate financial statements on the date of proposed restructuring is ₹ 15 lakh.

After the proposed restructuring, New Co. wants to record its investment in Company A at cost. Determine how it should measure the cost of investment in Company A?

Solution: In current case, New Co. should measure the cost of investment in Company A at the carrying amount of its share of the equity items shown in the separate financial statements of Company A at the date of the restructuring because:

- New Co. obtains control of Company A by issuing equity instruments to the Owners in exchange for their existing equity instruments of Company A;

- b) the assets and liabilities of the group immediately before and the proposed restructuring will be same; and
- c) the Owners will have the same absolute and relative interests in the net assets of the group immediately before and after the proposed restructuring.

Hence, New Co. will measure the cost of investment in Company A at ₹ 15 lakh.

Illustration 3:

A company, AB Ltd. holds investments in subsidiaries and associates. In its separate financial statements, AB Ltd. wants to elect to account its investments in subsidiaries at cost and the investments in associates as financial assets at fair value through profit or loss (FVTPL) in accordance with Ind AS 109, Financial Instruments. Whether AB Limited can carry investments in subsidiaries at cost and investments in associates in accordance with Ind AS 109 in its separate financial statements?

[RTP Nov 2020; RTP Nov 21]

Answer: Paragraph 10 of Ind AS 27, Separate Financial Statements inter -alia provides that, when an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either at cost, or in accordance with Ind AS 109, Financial Instruments in its separate financial statements. Further, the entity shall apply the same accounting for each category of investments.

It may be noted that although the 'category' is used in number of Standards, it is not defined in any of the Ind AS. It seems that subsidiaries, associates and joint ventures would qualify as separate categories. Thus, the same accounting policies are applied for each category of investments - i.e. each of subsidiaries, associates and joint ventures. However, paragraph 10 of Ind AS 27 should not be read to mean that, in all circumstances, all investments in associates are one 'category' of investment and all investments in joint ventures or an associate are one 'category' of investment. These categories can be further divided into sub-categories provided the sub-category can be defined clearly and objectively and results in information that is relevant and reliable. For example, an investment entity parent can have investment entity subsidiary (at fair value through profit or loss) and non-investment entity subsidiary (whose main purpose is to provide services that relate to the investment entity's investment activities) as separate categories in its separate financial statements. In the present case, investment in subsidiaries and associates are considered to be different categories of investments. Further, Ind AS 27 requires to account for the investment in subsidiaries, joint ventures and associates either at cost, or in accordance with Ind AS 109 for each category of Investment. Thus, AB Limited can carry its investments in subsidiaries at cost and its investments in associates as financial assets in accordance with Ind AS 109 in its separate financial statements.

NOTES

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