

## UNIT 8: DISCLOSURES

### 8.0 INTRODUCTION

This Unit is divided in two parts as follows:

- Part A: Disclosure of interest in other entities as per Ind AS 112
- Part B: Disclosure in separate financial statements as per Ind AS 27

Note: Only those disclosures which are significant from students' perspective have been covered here.

### PART A: DISCLOSURE OF INTERESTS IN OTHER ENTITIES AS PER IND AS 112

#### 8.1 OBJECTIVE OF IND AS 112

Ind AS 112 require an entity to disclose information (related to its interests in other entities) that enables users of its financial statements to evaluate:

the nature of, and risks associated with, its **interests in other entities** (defined below)

AND

the **effects of those interests** on its financial position, financial performance and cash flows.

#### Interests in other entities

**Definition:** For the purpose of Ind AS 112, an interest in another entity refers to **contractual and non-contractual involvement that exposes an entity to variability of returns** from the performance of the other entity. Consideration of the purpose and design of the other entity may help the reporting entity when assessing whether it has an interest in that entity and, therefore, whether it is required to provide the disclosures in Ind AS 112. That assessment shall include consideration of the risks that the other entity was designed to create and the risks the other entity was designed to pass on to the reporting entity and other parties.

- An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees.

- It includes the means by which an entity has control or joint control of, or significant influence over, another entity. An entity does not necessarily have an interest in another entity solely because of a typical customer supplier relationship.

A reporting entity is typically exposed to variability of returns from the performance of another entity by holding instruments (such as equity or debt instruments issued by the other entity) or having another involvement that absorbs variability.

#### Example 4

Assume a structured entity holds a loan portfolio. The structured entity obtains a credit default swap from another entity (the reporting entity) to protect itself from the default of interest and principal payments on the loans. The reporting entity has involvement that exposes it to variability of returns from the performance of the structured entity because the credit default swap absorbs variability of returns of the structured entity.

Some instruments are designed to transfer risk from a reporting entity to another entity. Such instruments create variability of returns for the other entity but do not typically expose the reporting entity to variability of returns from the performance of the other entity.

#### Example 5

Assume a structured entity is established to provide investment opportunities for investors who wish to have exposure to entity Z's credit risk (entity Z is unrelated to any party involved in the arrangement). The structured entity obtains funding by issuing to those investors notes that are linked to entity Z's credit risk (credit-linked notes) and uses the proceeds to invest in a portfolio of risk-free financial assets. The structured entity obtains exposure to entity Z's credit risk by entering into a credit default swap (CDS) with a swap counterparty. The CDS passes entity Z's credit risk to the structured entity in return for a fee paid by the swap counterparty. The investors in the structured entity receive a higher return that reflects both the structured entity's return from its asset portfolio and the CDS fee. The swap counterparty does not have involvement with the structured entity that exposes it to variability of returns from the performance of the structured entity because the CDS transfers variability to the structured entity, rather than absorbing variability of returns of the structured entity.

### Meeting the objective

To meet the above objective, an entity shall disclose following:

#### Disclosures related to interests in other entities

Significant judgements and assumptions it has made in determining:

- the nature of its interest in another entity or arrangement;
- the type of joint arrangement in which it has an interest;
- that it meets the definition of an investment entity, if applicable

Information about its interests in

- Subsidiaries;
- arrangements and associates; and
- structured entities that are not controlled by the entity (unconsolidated structured entities)

Each of the above disclosures are explained in detail subsequently in this unit.

If the disclosures required by Ind AS 112, together with disclosures required by other Ind AS, do not meet the objective mentioned above, then an entity shall disclose whatever additional information is necessary to meet that objective.

### Aggregation

An entity shall decide, in the light of its circumstances, how much detail it provides to satisfy the information needs of users, how much emphasis it places on different aspects of the requirements and how it aggregates the information. It is necessary to strike a balance between burdening financial statements with excessive detail that may not assist users of financial statements and obscuring information as a result of too much aggregation.

An entity may aggregate the disclosures required by Ind AS 112 for interests in similar entities if aggregation is consistent with the disclosure objective and the requirement in next paragraph and does not obscure the information provided. An entity shall disclose how it has aggregated its interests in similar entities.

An entity **shall** present information **separately** for interests in:

- a) subsidiaries;
- b) joint ventures;
- c) joint operations;
- d) associates; and
- e) unconsolidated structured entities (explained in this unit).

In determining whether to aggregate information, an entity shall consider quantitative and qualitative information about the different risk and return characteristics of each entity it is considering for aggregation and the significance of each such entity to the reporting entity. The entity shall present the disclosures in a manner that clearly explains to users of financial statements the nature and extent of its interests in those other entities.

Examples of aggregation levels **within the classes of entities mentioned above** that might be appropriate are:

- (a) nature of activities (e.g. a research and development entity, a revolving credit card securitisation entity).
- (b) industry classification.
- (c) geography (e.g. country or region)



## 8.2 SCOPE OF IND AS 112

### Scope inclusions

Disclosure requirements of Ind AS 112 **applies** to an entity that has an interest in any of the following:

Subsidiaries	Joint arrangements (i.e. joint operations or joint ventures)	Associates	Unconsolidated structured entities
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The disclosure requirements of Ind AS 112 also applies if an entity's interests listed as above are classified (or included in a disposal group that is classified) as held for sale or discontinued operations in accordance with Ind AS 105 '*Non-current Assets Held for Sale and Discontinued Operations*'.

### Scope exclusions

Disclosure requirements of Ind AS 112 **does not apply** to the following:

Post-employment benefit plans or other long-term employee benefit plans to which Ind AS 19 '*Employee Benefits*' applies.

- For example, Company A has set up an Employee Benefit Plan trust. So, Company A is not required to make disclosures as required by Ind AS 112 of its interest in such trust.

An entity's separate financial statements to which Ind AS 27 '*Separate Financial Statements*' applies. However,

- If an entity has interests in unconsolidated structured entities and prepares separate financial statements as its only financial statements then it shall apply the disclosure requirements of Ind AS 112
- An Investment entity that prepares financial statements in which all of its subsidiaries are measured at fair value through profit or loss in accordance with Ind AS 110 '*Consolidated Financial Statements*' shall present the disclosures relating to investment entities required by Ind AS 112

Interest held by an entity that participates in, but does not have joint control of, a joint arrangement unless that interest results in significant influence over the arrangement or is an interest in a structured entity.

Interest in another entity that is accounted for in accordance with Ind AS 109 '*Financial Instruments*'. However, an entity shall apply Ind AS 112:

- when that interest is an interest in an associate or a joint venture that, in accordance with Ind AS 28 '*Investments in Associates and Joint Ventures*' is measured at fair value through profit or loss; or
- when that interest is an interest in an unconsolidated structured entity



## 8.3 DISCLOSURES RELATED TO INTERESTS IN SUBSIDIARIES

An entity shall disclose information that enables users of its consolidated financial statements

**to understand**

- the composition of the group; and
- the **interest that non-controlling interests have** in the group's activities and cash flows; and

**to evaluate**

- the **nature and extent of significant restrictions** on its ability to access or use assets, and settle liabilities, of the group
- the **nature of, and changes in, the risks associated** with its interests in consolidated structured entities
- the **consequences of changes in its ownership interest** in a subsidiary that do not result in a loss of control; and
- the **consequences of losing control** of a subsidiary during the reporting period

When the financial statements of a subsidiary used in the preparation of consolidated financial statements are as of a date or for a period that is different from that of the consolidated financial statements, an entity shall disclose:

- the date of the end of the reporting period of the financial statements of that subsidiary; and
- the reason for using a different date or period.

### **8.3.1 The interest that non-controlling interests have in the group's activities and cash flows**

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An entity shall disclose for each of its subsidiaries that have non-controlling interests that are material to the reporting entity:

the name of the subsidiary.

the principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary.

the proportion of ownership interests held by non-controlling interests.

the proportion of voting rights held by non-controlling interests, if different from the proportion of ownership interests held.

the profit or loss allocated to non-controlling interests of the subsidiary during the reporting period.

accumulated non-controlling interests of the subsidiary at the end of the reporting period.

summarised financial information about the subsidiary (explained subsequently in this unit)

### The nature and extent of significant restrictions

An entity shall disclose following:

**Significant restrictions** (eg statutory, contractual and regulatory restrictions) on its ability to access or use the assets and settle the liabilities of the group, such as:

- those that restrict the ability of a parent or its subsidiaries to transfer cash or other assets to (or from) other entities within the group.
- guarantees or other requirements that may restrict dividends and other capital distributions being paid, or loans and advances being made or repaid, to (or from) other entities within the group.

The **nature and extent** to which protective rights of non-controlling interests can significantly restrict the entity's ability to access or use the assets and settle the liabilities of the group (such as when a parent is obliged to settle liabilities of a subsidiary before settling its own liabilities, or approval of non-controlling interests is required either to access the assets or to settle the liabilities of a subsidiary).

The **carrying amounts** in the consolidated financial statements of the assets and liabilities to which those restrictions apply.

### **8.3.2 Nature of the risks associated with an entity's interests in consolidated structured entities**

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An entity shall disclose the terms of any contractual arrangements that could require the parent or its subsidiaries to provide financial support to a consolidated structured entity, including events or circumstances that could expose the reporting entity to a loss (e.g. liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or provide financial support).

If during the reporting period a parent or any of its subsidiaries has, without having a contractual obligation to do so, **provided financial or other support to a consolidated structured entity** (e.g. purchasing assets of or instruments issued by the structured entity), the entity shall disclose:

- a) the type and amount of support provided, including situations in which the parent or its subsidiaries assisted the structured entity in obtaining financial support; and
- b) the reasons for providing the support.

If during the reporting period a parent or any of its subsidiaries has, without having a contractual obligation to do so, **provided financial or other support to a previously unconsolidated structured entity** and that provision of support resulted in the entity controlling the structured entity, the entity shall disclose an explanation of the relevant factors in reaching that decision.

An entity shall disclose any current intentions to provide financial or other support to a consolidated structured entity, including intentions to assist the structured entity in obtaining financial support.

### **8.3.3 Consequences of changes in a parent's ownership interest in a subsidiary that do not result in a loss of control**

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An entity shall present a schedule that shows the effects on the equity attributable to owners of the parent of any changes in its ownership interest in a subsidiary that do not result in a loss of control.

### **8.3.4 Consequences of losing control of a subsidiary during the reporting period**

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An entity shall disclose the gain or loss, if any, calculated in accordance with Ind AS 110, and:

- (a) the portion of that gain or loss attributable to measuring any investment retained in the former subsidiary at its fair value at the date when control is lost; and
- (b) the line item(s) in profit or loss in which the gain or loss is recognised (if not presented separately).



## 8.4 DISCLOSURES RELATED TO INTERESTS IN JOINT ARRANGEMENTS AND ASSOCIATES

An entity shall disclose information that enables users of its financial statements to evaluate:

- (a) the **nature, extent and financial effects** of its interests in joint arrangements and associates, including the nature and effects of its contractual relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates; and
- (b) the nature of, and changes in, the **risks associated with its interests** in joint ventures and associates

The above disclosure requirements are discussed in detail in this section below.

### 8.4.1 Nature, extent and financial effects of an entity's interests in joint arrangements and associates

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An entity shall disclose:

For each **joint arrangement and associate** that is material to the reporting entity:

- the name of the joint arrangement or associate.
- the nature of the entity's relationship with the joint arrangement or associate (by, for example, describing the nature of the activities of the joint arrangement or associate and whether they are strategic to the entity's activities).
- the principal place of business (and country of incorporation, if applicable and different from the principal place of business) of the joint arrangement or associate.
- the proportion of ownership interest or participating share held by the entity and, if different, the proportion of voting rights held (if applicable).

For each **joint venture and associate** that is material to the reporting entity:\*

- whether the investment in the joint venture or associate is measured using the equity method or at fair value.
- summarised financial information about the joint venture or associate (explained subsequently in this unit)
- if the joint venture or associate is accounted for using the equity method, the fair value of its investment in the joint venture or associate, if there is a quoted market price for the investment.

**Financial information** (explained subsequently in this unit) about the entity's investments in joint ventures and associates that are **not individually material**: \*

- in aggregate for all individually immaterial joint ventures and, separately,
- in aggregate for all individually immaterial associates.

\* This information is not required to be disclosed by an investment entity.



## 8.5 DISCLOSURES OF SUMMARISED FINANCIAL INFORMATION FOR SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

In this section, we will discuss disclosure requirements for following:

- Disclosures for subsidiary that has non-controlling interests that are material
- Disclosures for joint venture and associate

- Disclosure for subsidiary, associate or joint venture classified as held for sale

### 8.5.1 Disclosures for subsidiary that has non-controlling interests that are material

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For each subsidiary that has non-controlling interests that are material to the reporting entity, an entity shall disclose:

- a) dividends paid to non-controlling interests.
- b) summarised financial information about the assets, liabilities, profit or loss and cash flows of the subsidiary that enables users to understand the interest that non-controlling interests have in the group's activities and cash flows. That information might include but is not limited to, for example, current assets, non-current assets, current liabilities, non-current liabilities, revenue, profit or loss and total comprehensive income. (This information shall be the amounts before inter-company eliminations).

### 8.5.2 Disclosures for joint venture and associate

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For each joint venture and associate that is material to the reporting entity, an entity shall disclose:

Dividends received from the joint venture or associate.

Summarised financial information for the joint venture or associate including, but not necessarily limited to:

- current assets
- non-current assets
- current liabilities
- non-current liabilities
- revenue
- profit or loss from continuing operations
- post-tax profit or loss from discontinued operations
- other comprehensive income
- total comprehensive income

In addition to the summarised financial information mentioned above, an entity shall disclose for each joint venture that is material to the reporting entity the amount of:

Cash and cash equivalents
Current financial liabilities (excluding trade and other payables and provisions)
Non-current financial liabilities (excluding trade and other payables and provisions)
Depreciation and amortisation
Interest income
Interest expense
Income tax expense or income

The summarised financial information presented in accordance with above for joint venture and associate shall be the amounts included in the Ind AS financial statements of the joint venture or associate (and not the entity's share of those amounts). If the entity accounts for its interest in the joint venture or associate using the equity method:

- a) the amounts included in the Ind AS financial statements of the joint venture or associate shall be adjusted to reflect adjustments made by the entity when using the equity method, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.
- b) the entity shall provide a reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint venture or associate.

An entity may present the summarised financial information required for joint venture or associate on the basis of the joint venture's or associate's financial statements if:

- a) the entity measures its interest in the joint venture or associate at fair value in accordance with Ind AS 28; and
- b) the joint venture or associate does not prepare Ind AS financial statements and preparation on that basis would be impracticable or cause undue cost.

(In that case, the entity shall disclose the basis on which the summarised financial information has been prepared.)

An entity shall disclose, in aggregate, the **carrying amount of its interests in all individually immaterial joint ventures or associates** that are accounted for using the equity method. An

entity shall also disclose separately the aggregate amount of its share of those joint ventures' or associates':

- (a) profit or loss from continuing operations.
- (b) post-tax profit or loss from discontinued operations.
- (c) other comprehensive income.
- (d) total comprehensive income.

(An entity provides these disclosures separately for joint ventures and associates)

### **8.5.3 Disclosure for subsidiary, associate or joint venture classified as held for sale**

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When an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified (or included in a disposal group that is classified) as **held for sale** in accordance with Ind AS 105, the entity is not required to disclose summarised financial information for that subsidiary, joint venture or associate as mentioned above.

**PART B:**

**DISCLOSURE IN SEPARATE FINANCIAL STATEMENTS AS PER IND AS 27**

An entity shall apply all applicable Ind AS when providing disclosures in its separate financial statements, including the requirements mentioned below.

When a parent, in accordance with paragraph 4(a) of Ind AS 110, **elects not to prepare consolidated financial statements** and instead prepares separate financial statements, it shall disclose in those separate financial statements:

<b>Disclosures in separate financial statements</b>		
<p>The fact that:</p> <ul style="list-style-type: none"> <li>• the financial statements are separate financial statements;</li> <li>• the exemption from consolidation has been used;</li> <li>• the name and principal place of business (and country of incorporation, if different) of the entity whose consolidated financial statements that comply with Ind ASs have been produced for public use; and</li> <li>• the address where those consolidated financial statements are obtainable.</li> </ul>	<p>A list of significant investments in subsidiaries, joint ventures and associates, including:</p> <ul style="list-style-type: none"> <li>• the name of those investees.</li> <li>• the principal place of business (and country of incorporation, if different) of those investees.</li> <li>• its proportion of the ownership interest (and its proportion of the voting rights, if different) held in those investees.</li> </ul>	<p>A description of the method used to account for those investments.</p>

When an investment entity that is a parent prepares separate financial statements as its only financial statements, it shall disclose that fact. The investment entity shall also present the disclosures relating to investment entities required by Ind AS 112.

When a parent (other than a parent covered by paragraphs mentioned above) or an investor with joint control of, or significant influence over, an investee prepares separate financial statements, the parent or investor shall **identify the financial statements prepared in accordance with Ind AS 110, Ind AS 111 or Ind AS 28** to which they relate. The parent or investor shall also disclose in its separate financial statements:

- a) the fact that the statements are separate financial statements
- b) a list of significant investments in subsidiaries, joint ventures and associates, including:
  - i. the name of those investees.

- II. the principal place of business (and country of incorporation, if different) of those investees.
  - III. its proportion of the ownership interest (and its proportion of the voting rights, if different) held in those investees.
- c) a description of the method used to account for those investments.

### FOR SHORTCUT TO IND AS WISDOM: SCAN ME!



**IND AS 27**



**IND AS 28**



**IND AS 110**



**IND AS 111**