

AS 21 - Consolidated Financial Statements

Consolidation (Overview of Related Standards)

Standard	Topic	Relationship
AS 21	Consolidated Financial Statements (CFS)	with Subsidiary
AS 23	Consolidated Financial Statements (CFS)	with Associate
AS 27	Consolidated Financial Statements (CFS)	Joint Ventures

I. Important Definitions

1. Parent Company (Holding Company):

- It is an entity which has **CONTROL** over one or more subsidiaries.

2. Control:

- It exists when the Parent has either:
 - **More than 50% voting power** (e.g., by acquiring more than 50% equity shares).
 - **OR Power to control the composition of the Board of Directors (BOD).**
- *Example: Parent/Holding Company (AK Ltd acquired 75% equity Shares of Reliance Ltd) → Subsidiary. Example: Soft Bank → WeWork (agreement that director of WeWork will be appointed by Soft Bank).*

3. Minority Interest (MI):

- Net Assets / Percentage of ownership of a subsidiary **not owned** by parent.
- *Example: AK Ltd 75% → Reliance Ltd. AK 75% is Parent. Remaining 25% of Reliance (Ltd) is with Minority Interest (e.g., Mali 5%, Aadit 5%, Unnati 10%, Ram 5%).*

II. Financial Statements to be Prepared by Parent

1. Separate Financial Statements (SFS):

- Only Assets / Liabilities / Income / Expenses of Parent.
- For stake acquired in Subsidiary, the Journal Entry is: Investment in Equity Shares TO Cash In Bank (CIB).

2. Consolidated Financial Statements (CFS):

- Combine Financial Statements of Parent & Subsidiary using line by line consolidation (full Consolidation) method.

Consolidated Financial Statements (Components):

- Consolidated Balance Sheet (Consolidated B/S)
- Consolidated Profit and Loss (Consolidated P/L)
- Consolidated Cash Flow (Not in syllabus)
- Consolidated Notes to Accounts (Cons. Notes to A/c's)

III. Consolidated Balance Sheet - Procedure for Consolidation

- **Method:** Line by line consolidation / full consolidation.
- In CFS, Parent records **100% of Net Assets** of Subsidiary (even if stake is 75%).
- *Example: Investment in Reliance (Subsidiary) 75% eliminated → Net Assets in Reliance (100%) [Refer Page 3 Example]*

Procedure for consolidation (in CFS):

1. **De-Recognition of Investment** made by parent Co.
2. **Recognition of 100% Value of Net Assets** of Subsidiary.
3. **Recognition of Minority Interest** as per proportionate share in Net Assets.
4. **Recognition of Goodwill (GW) / Capital Reserve (CR)** (Cost of Control - COC) [Just like Amalgamation].
5. **Elimination of Intra Group Balances & Unrealised Profit.**

Consolidation Journal Entry (Conceptual Format):

- Assets of Subsidiary Account Debit (100%)
- Goodwill (Balancing Figure) Debit
- To Investment in Equity shares of Sub
- To Liabilities of Subsidiary Account (100%)
- To Minority Interest Account
- To Capital Reserve Account (Balancing Figure)

IV. Detailed Working Notes and Calculations

1. Analysis of Profit (AOP) / Net Assets of Subsidiary

Category	Definition	Allocation
Capital Profit (Pre-Acquisition)	Profit/Reserves accumulated up to the Date of Acquisition (DOA).	To Cost of Control (GW/CR) and Minority Interest (MI).
Revenue Profit (Post-Acquisition)	Profit/Reserves earned after the Date of Acquisition.	To Consolidated Reserves (Parent's Share) and Minority Interest (MI).

- **Net Assets of Subsidiary on DOA** can be calculated as: Assets on DOA of Subs - Liabilities on DOA of Sub OR Equity share Capital of Sub (on DOA) + Reserves of Sub (on DOA).

2. Minority Interest (MI) Calculation (Working Note 3)

- MI is calculated as the **Prop of Net Assets (MI Share)** = (Equity Share Capital + Pre-Acquisition Reserves + Post-Acquisition Reserves) × MI Percentage.
- **Components:** Calculation of Minority Interest (MI) Share

Equity Share Capital Share of MI × MI Percentage

Pre-Acquisition Share of MI (Capital Profit) × MI Percentage

Post-Acquisition Share of MI (Revenue Profit) × MI Percentage

Less: Unrealised Profit (URP) Share of MI (only if the subsidiary is the selling company – Upstream transaction) × MI Percentage

- **Note:** Minority Interest is shown under the Equity & Liabilities section of the Consolidated Balance Sheet.

3. Cost of Control (COC) (Goodwill / Capital Reserve) Calculation (Working Note 4)

- **Formula:** Calculation of Goodwill and Capital Reserve

Cost of Investment (Parent's Share)

Less: Net Assets of Subsidiary at Date of Acquisition (Parent's Share × (Equity Share Capital + Pre-Acquisition Reserves))

Goodwill (GW): If Cost of Investment > Net Assets Share (positive), then Goodwill is recorded as Non-Current Asset (NCA)

Capital Reserve (CR): If Cost of Investment < Net Assets Share (negative), then Capital Reserve is recorded in Reserves (RES)

4. Consolidated Reserves and Surplus Calculation (Working Note 5)

- **Formula:** Calculation of Parent's Reserves and Surplus

Parent's Reserves and Surplus (from SFS)

Add: Post-Acquisition Share of Subsidiary's Profit (Revenue Profit) × Parent's Percentage

Add: Capital Reserve from Cost of Control (if any)

Less: Unrealised Profit (URP) Share of Parent (Downstream or Upstream transaction) × Parent's Percentage

Less: Rectification for Pre-Acquisition Dividend incorrectly credited to Parent's Reserves / Profit and Loss Account (Parent's Share)

5. Time Adjustment (When Date of Acquisition is in the middle of the year)

- **Assumption:** Profits have accrued **evenly throughout the year** (unless otherwise stated).
- The profit for the period (Opening Reserves to Closing Reserves difference) is split into Pre-Acquisition and Post-Acquisition based on the number of months.

6. Abnormal Gain / Loss Adjustment (When Date of Acquisition is in the middle of the year)

- **Logic:** Time Adjustment is performed on **normal profit** (which is assumed to be evenly accrued). When there is abnormal gain / loss, time adjustment cannot be performed directly.
- **Steps:**
 1. Reverse the effect of Abnormal Gain / Loss from **Post-Acquisition profit (Always)**.
 2. Then perform **Time Adjustment** on the remaining normal profit.
 3. Then take effect of Abnormal Gain / Loss in **Pre/Post** depending on the **date of gain/loss**.

7. Inter Company Balances

- Inter Company Balances between Parent & Subsidiary like Trade receivables & Trade payables, Bills receivable & Bills payables, loan given & loan taken, etc., will get **eliminated in CFS**.

8. Unrealised Profit (Stock Reserve)

- Profit element on unsold stock (Inventory) between Parent and Subsidiary will be **eliminated in CFS** (Provided the goods are outstanding at year end).
- **Downstream Transaction (Parent sold goods to Subsidiary):** Profit was earned by Parent.
 - **Journal Entry in CFS:**
Consolidated Reserves Account Debit (XX)
To Inventory Account (XX)
- **Upstream Transaction (Subsidiary sold goods to Parent):** Profit was earned by Subsidiary. Subsidiary's profit was recorded by Parent & Minority Interest.
 - **Journal Entry in CFS:**
Consolidated Reserves Account Debit (Parent's Share) (XX)
Minority Interest Account Debit (MI's Share) (XX)
To Inventory Account (XXX)

9. Revaluation Gain / Loss on Net Assets (Fair Value Adjustments)

- We need Net Assets of Subsidiary @ **Fair Value on Date of Acquisition (DOA)**.
- **Procedure for AOP:** Take Fair Value of Asset / Liability Adjustment (FV Adj) in **Pre column** after Time Adjustment.
 - *Reason for Pre column:* As fair value adjustments are done on DOA & effects of DOA are taken in Pre column.
- **Depreciation Adjustment:** Excess Depreciation (due to increase in FV of Asset) → Charge in **Post-Acquisition** column. Savings in Depreciation (due to decrease in FV of Asset) → Add in **Post-Acquisition** column.

10. Dividend Paid by Subsidiary to Parent

- **Final Dividend (for previous year, paid in current year):**
 - *CFS Adjustment for Subsidiary (Payer):*
 1. Add Back Dividend to the Profit/Reserve balance.
 2. Perform Time Adjustment.
 3. Deduct the dividend from the **Pre-Acquisition** column (assuming dividend paid in current year was paid for profit which falls in pre-acquisition period).
- **Interim Dividend (paid out of current year profits):**
 - *CFS Adjustment for Subsidiary (Payer):*
 1. Add Back Dividend in the Post column.
 2. Perform Time Adjustment.
 3. Deduct from **Pre OR Post** (Depending on months falling in Pre/Post for dividend).
- **Adjustment for Parent (Receiver):**
 - **Pre-Acquisition Dividend:** Treated as **Recovery of Investment** (Reduces the Cost of Investment).
 - *Rectification if wrongly credited to Income/Reserves:* Reserves or Profit and Loss Account Debit To Investment.
 - **Post-Acquisition Dividend:** Transferred to **Income** (Profit and Loss Account).

11. Time of Incorporation (for new Subsidiary)

- If the subsidiary is newly incorporated (date of incorporation is the DOA):
 - **Reserves of Subsidiary (Anushka)** on the date of incorporation must have been **zero**.
 - The entire profit earned from the date of incorporation to the year end is treated as **Post-Acquisition Profit**.