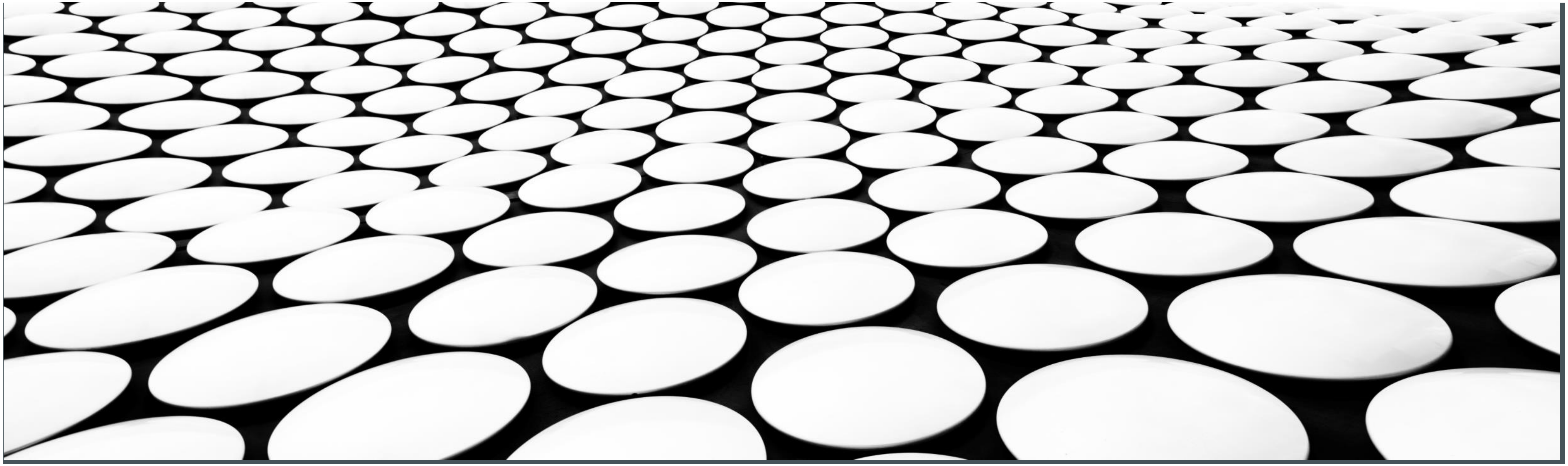
INDIAN ACCOUNTING STANDARDS
CONSOLIDATED FINANCIAL STATEMENTS, ASSOCIATES AND JOINT ARRANGEMENTS – IND AS 27,IND AS 28,IND AS 110, IND AS 111 AND IND AS 112

BY B D CHATTERJEE *FCA, ACMA, ACS, DIP (IFR) ACCA – UNITED KINGDOM*



INDIAN ACCOUNTING STANDARDS
CONSOLIDATED FINANCIAL STATEMENTS, ASSOCIATES AND JOINT ARRANGEMENTS – IND AS 27,IND AS 28, IND AS 110, IND AS 111 AND IND AS 112

INDIAN ACCOUNTING STANDARDS
CONSOLIDATED FINANCIAL STATEMENTS
SUBSIDIARIES - IND AS 110

What is a group?

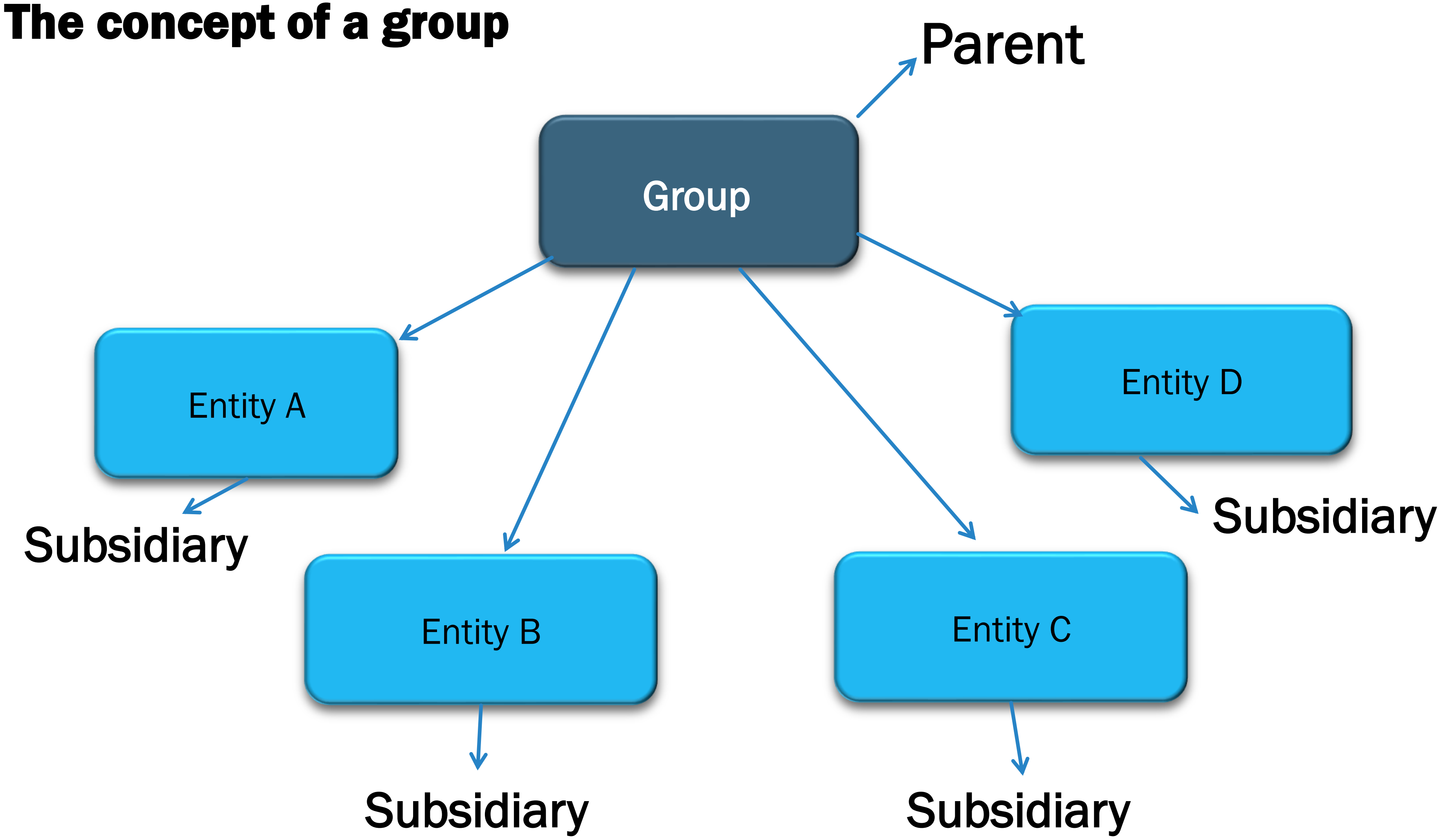
Ind AS 110 specifies that consolidated financial statements have to be prepared where a group of entities are controlled by a parent.
Consolidated financial statements are prepared by combining the financial statements of all the group entities, with a view to determine the financial status of the group as if it were one single entity.

Group is a parent with all its subsidiaries
Parent is an entity that controls one or more entities
Subsidiary is an entity that is controlled by another entity

(Ind AS 110, Appendix A)

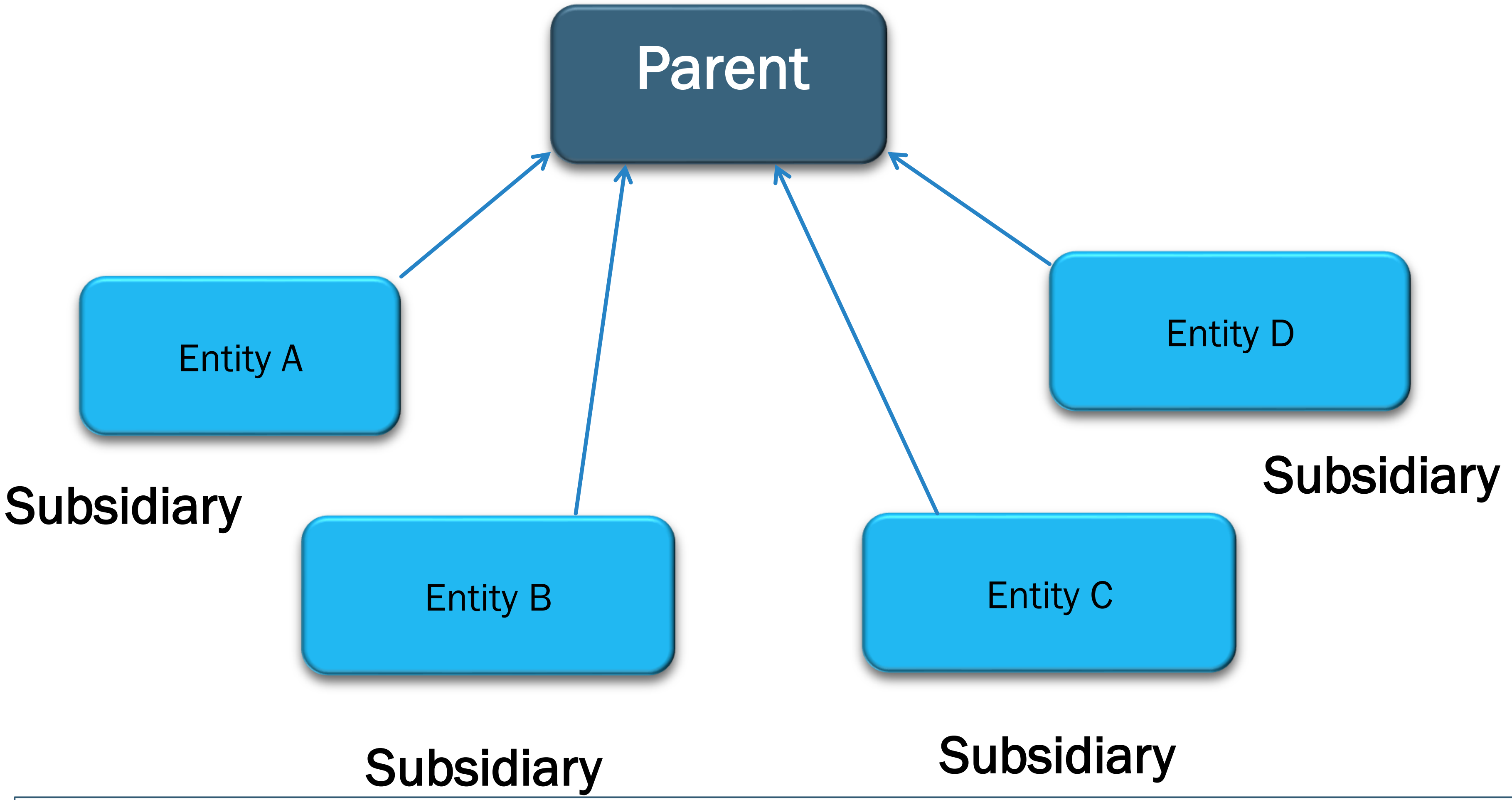
Consolidated and separate financial statements – Ind AS 27

The concept of a group



Consolidated and separate financial statements – Ind AS 27

Presentation of consolidated accounts



All Financial statements are consolidated as it is one company only

What is Control ?

In accordance with Ind AS 110, an investor controls an investee if an only if the investor has ALL of the following characteristics:

- Power over the investee
- Exposure, or rights, to variable returns from its involvement with the investee and
- Ability to use its power over the investee to affect the amount of the investor's returns.

Control = Power + Exposure to variability in returns + Link between power and return

Concept of power

Power of the investor over investee comprises all of the following criteria:
a) Right to direct the **relevant activities** of the investee
b) The way decisions about relevant activities are made
c) The rights that the investor and other parties have in relation to the investee
d) Factors to be considered in consolidating a deemed separate entity (SILO)

Rights

- *Existing rights* that
- give the investor *current ability* to
- Direct the *relevant activities.*

Relevant activities

- Activities of the investee that significantly affect the investor's returns.

Rights

Some examples

- rights in the form of voting rights or potential voting rights of an investee
- rights to appoint, reassign or remove members of an investee's key management personnel who have the right to direct the relevant activities
- rights to appoint or remove another entity that directs the relevant activities
- rights to direct the investee to enter into, or veto any changes to, transactions for the benefit of the investor and
- other rights (such as decision making rights specified in a management contract) that give the holder the ability to direct the relevant activities

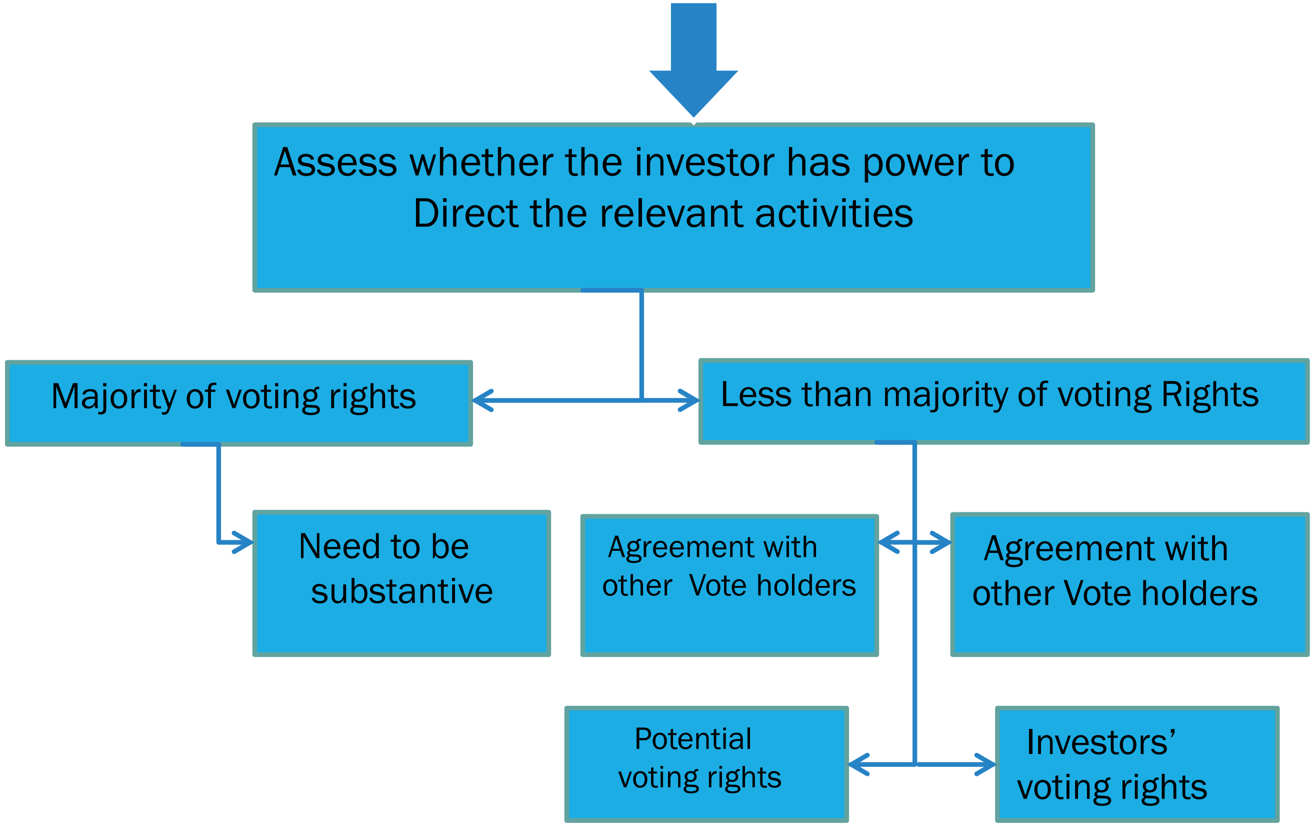
In order to assess power, only ***substantive rights*** should be considered.

Relevant activities

Some examples

- selling and purchasing of goods and services
- managing financial assets during their life (including upon default)
- selecting, acquiring or disposing of assets,
- researching and developing new products or processes and
- determining a funding structure or obtaining funding

Decision tree on control



Exposure to variability of control

- To control an investee, an investor must be exposed, or have rights to variable returns from its involvement with the investee.
- This occurs when the investor's returns from its involvement have the potential to vary as a result of the investee's performance.
- Although only one investor can control an investee, more than one party can share the returns of an investee, e.g. holders of non-controlling interest can share the profits or distributions of an investee, but cannot control the investee.

Link between power and returns

The investor does not control the investee in the following circumstances:

- an investor has power over an investee, but cannot benefit from that power
- an investor receives return from an investee, but cannot use its power to direct the activities that significantly affect the returns of that investee.

Therefore it becomes necessary that the investor should have the ability to use its power over the investee to affect its returns. Hence,

- when an investor with decision making rights (a decision maker) assesses whether it controls an investee, it shall determine whether it is a principal or an agent.
- an investor shall also determine whether another entity with decision making rights is acting as an agent for the investor
- an agent is a party primarily engaged to act on behalf of and for the benefit of another party or parties (i.e. the principals) and therefore does not control the investee when it exercises its decision-making authority.

Disclosure requirements under Ind AS 112

a) Disclosure requirements are specified under Ind AS 112 – Disclosure of interests in other entities

b) Ind AS 112 presents a single disclosure standard for reporting entities with special relationships with other entities, including subsidiaries, joint ventures, associates and unconsolidated structured entities

c) Ind AS 112 expands the disclosure requirements for both consolidated entities and unconsolidated structured entities

d) These disclosures assist in identifying the profit and cash flows available to the reporting entity

e) The disclosure objectives in Ind AS 112 will give preparers flexibility to tailor their individual disclosures to meet these objectives.

f) An entity may have to fine tune its ERP system to obtain the necessary additional disclosure requirements.

Objectives of preparing Consolidated Financial Statements

- Determine financial status of group as one single entity
- Safeguard interests of ordinary shareholders of parent company
- Show full earnings on parent’s investments
- Show where group as a whole stands
- Assist in prevention of malpractices and manipulations in financial statements

Exemptions from preparation of Consolidated Financial Statements

If ALL FOUR conditions are fulfilled:

- The parent itself is a wholly or partially owned subsidiary of another entity and its owners have been informed and do not object to the parent not presenting consolidated financial statements
- The ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with Ind ASs
- The parent’s debt or equity instruments are not traded in a public market (e.g. a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets
- The parent has not filed, nor in the process of filing, its financial instruments with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.

No Exemptions from preparation of Consolidated Financial Statements

However, no specific exemptions for the following subsidiaries:

- Subsidiaries whose business activities are dissimilar from those of the other entities within the group
- Subsidiaries of venture capital organisation, mutual funds, unit trust or any other similar entity
- Subsidiaries held for sale, i.e. investments by a parent in an entity only for the purpose of selling it. In case of such subsidiaries measurement and accounting is done as per IFRS 5.

Consolidation process – Balance Sheet

- Add all items like assets, liabilities, income and expenditure of the parent and the subsidiary line by line

- Cancel parent's investment in subsidiary (in parent's books), with parent's portion in subsidiary's ordinary shares (in subsidiary books)
  Dr. Ordinary share capital (in subsidiary books)
  Cr. Investment (in parent books

- Eliminate all intra-group balances, transactions, income and expenses in full from both parent as well as subsidiary books.
  Some examples are:
  - Intra group revenue
  - Intra group inventories
  - Unrealised profit on intra group inventories (including treatment of deferred tax)
  - Intra group purchase / sale of tangible assets
  - Unrealised profit on intra group tangible assets (including treatment of deferred tax)
  - Intra group loan
  - Intra group dividends

Consolidation process – Balance Sheet (Contd)

- Make required adjustments for part cancellations
- Split profit / loss of subsidiary between pre and post-acquisition portions based on acquisition date
- Calculate fair value of assets of subsidiary if any on acquisition date
- Determine deferred tax on increase in fair value of assets
- Calculate value of Non-controlling interest (NCI) as on acquisition date
- Calculate goodwill / bargain purchase on the date of acquisition
- Calculate parents share in subsidiary's profit = Profit of subsidiary – share of non-controlling interest
- Calculate parent's reserve
- Calculate NCI on SOFP date and show it in consolidated SOFP under Equity

Consolidation process – Statement of Profit and Loss

- If income consists of post-acquisition profits only (i.e. the subsidiary has been acquired for over one year) and no non-controlling interest exists – add all the items in individual income statement line by line for consolidation up-to the line “ profit after tax for the year”

- If income consists of post-acquisition profits only (i.e. the subsidiary has been acquired for over one year) and non-controlling interest exists –
  i)add all the items in individual income statement line by line for consolidation up-to the line “ profit after tax for the year”
  ii)then show NCI share in subsidiary profit after tax separately as NCI interest in the income statement
  iii)parent share is shown below NCI share and is calculated as (i)less (ii)above

Consolidation process – Statement of Profit and Loss (Contd)

- If the subsidiary is acquired during the year:

  i)The profits for the year of the subsidiary are split to ascertain pre and post-acquisition profits by splitting the income statement

  ii)Pre-acquisition profits- total net assets including pre-acquisition profits are deducted from the total of the consideration, the value of NCI and acquisition date fair value of the previously held equity interests for calculating goodwill.

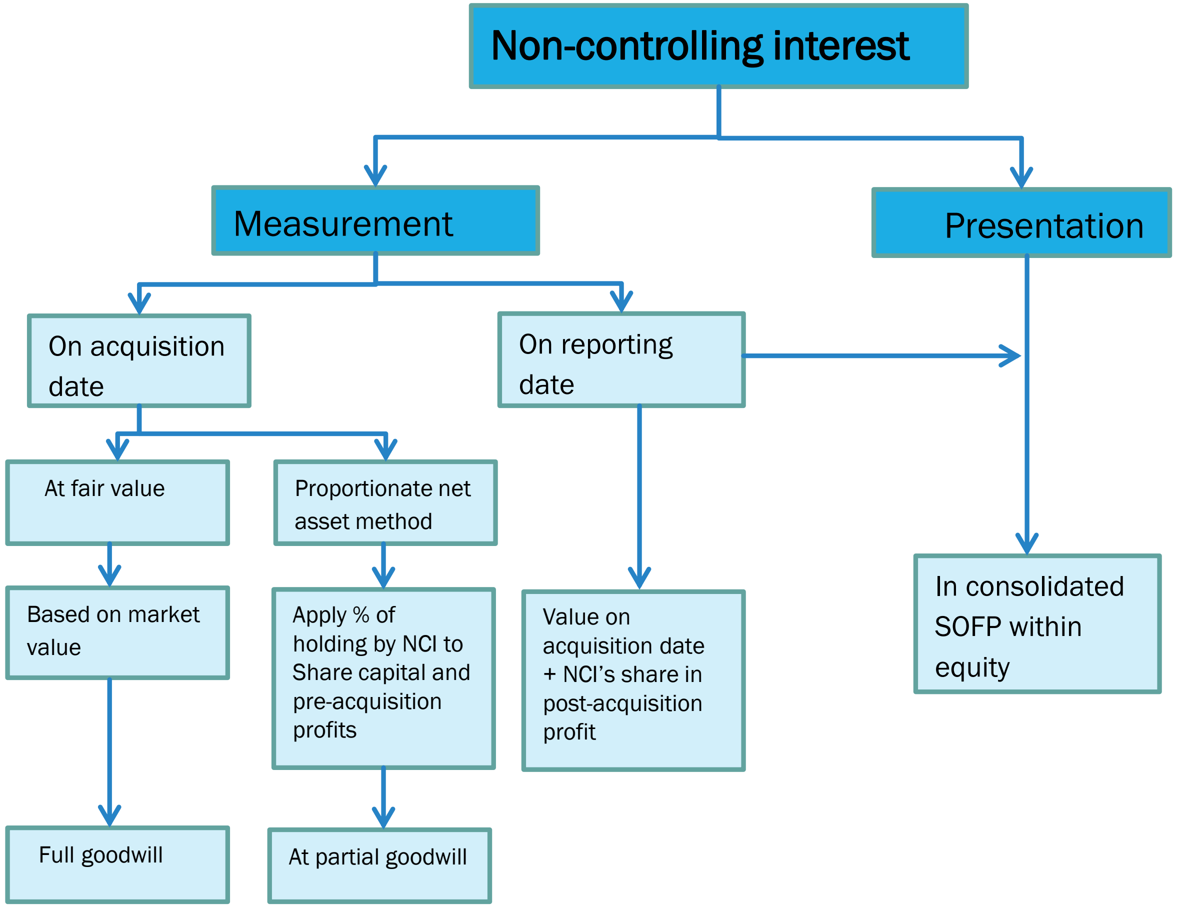
  iii)Post-acquisition profits – Parent's share added to parent's income for the year and reflected in consolidated statement of comprehensive income

  iv)Post-acquisition profits – NCI share added to non-controlling interest and included in consolidated Balance Sheet

Types of Consideration

Consideration type	Characteristics
Cash	When consideration is paid in cash it is accounted as under: Dr. Investment x Cr. Cash x
Share exchange	In this case consideration may be in the form of share exchange. **Example:** On 1st Jan 2022, P Co acquired 27000 shares in S Co by way of exchange of two shares in P Co for every three shares in S Co. The face value of P Co's share is Rs.1 each and its market price is Rs.3 each. Hence the consideration in S Co will work to: (27000 x 2/3) x Rs. 3 = Rs.54000 Dr .Investment Rs. 54000 Cr. Share capital (27000 x 2/3) x Rs.1 Rs.18000 Cr. Share Premium (27000 x 2/3) x Rs. 2 Rs.36000
Contingent consideration	This is a consideration that an acquirer commits to the acquiree in cash or additional equity interests or other assets after the acquisition date on the fulfilment of a certain specified event or condition in the future.
Deferred consideration	Deferred consideration is the one which is not payable immediately but is payable in the future and which is not contingent is called a deferred consideration.

Non-controlling interest



Measurement of goodwill – Ind AS 103

a) Aggregate of i)the consideration transferred measured in accordance with this IFRS, which generally requires acquisition date fair value ii)the amount of non-controlling interest in the acquiree measured in accordance with this IFRS and iii)in case of business combination achieved in stages (IFRS 3, para 41 and 42), the acquisition date fair value of the acquirer's previously held equity interest in the acquiree	X X X
TOTAL (A)	X
b) The net of acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in terms of this IFRS	X
TOTAL (B)	X
Goodwill (A- B)	X
Bargain purchase (B – A)	X *

Acquisition related costs - treatment

- These are costs the acquirer incurs to effect a business combination.
- Include finder's fees, advisory, legal, accounting, valuation and other professional or consulting fees, general administrative costs, including the costs of maintaining an internal acquisitions departments, and costs of registering and issuing debt and equity securities.
- According to IFRS 3, the acquirer is required to recognise acquisition related costs as expenses in the periods in which the costs are incurred and the services are received.
- However, the costs of issue debt or equity securities are recognised in accordance with Ind AS 32 (for equity) and Ind AS 109 (for debt).

Pre-acquisition profit and post-acquisition profit - treatment

Pre-acquisition profit	Pre-acquisition profits are made by the subsidiary prior to the date of acquisition by the parent. Formula: Pre-acquisition profit = All the brought forward reserves of the subsidiary + profit for the year in which the subsidiary is acquired, up to acquisition date Pre-acquisition profits are to be deducted from the consideration in the subsidiary when calculating goodwill.
Post-acquisition profit	Post-acquisition profits include profit reflected in the retained earnings in the subsidiary's accounts after the acquisition date. Post-acquisition profits are added to parent entity's retained earnings in the consolidated SOFP Post-acquisition profits of subsidiary = Reserves at the year-end *minus* Pre-acquisition profits.

STEPS IN CONSOLIDATION - SOFP

Step I	Determine percentage holding of Parent Co and non-controlling interest
Step II	Determine purchase consideration based on exchange ratio
Step III	Calculate pre-acquisition reserves
Step IV	Calculate goodwill
Step V	Calculate post-acquisition reserves
Step VI	Calculate non-controlling interest
Step VII	Cancel out intra-group transactions and if there is any balance on receivables , treat this as goods-in-transit
Step VIII	Cancel out intra-group loan stock
Step IX	Consolidate all items of assets and liabilities line by line.

Treatment of Unrealised Profit (URP) on Inventories

Sale by parent to its subsidiary	Sale by subsidiary to its parent
URP lies in a) Inventory in subsidiary books b) Profit in Parent books	URP lies in a) Inventory in parent books b) Profit in subsidiary books
Effect: a) Deduct from inventory b) Deduct from SOCI of parent	Effect: c) Deduct from inventory d) Deduct from SOCI of subsidiary
Since profit is in parent books – NCI will not be impacted	Since profit is in subsidiary books, in case of partly owned subsidiary – NCI will be impacted
Entry: Dr. Group retained earnings x Cr. Inventories x	Entry: Dr. Group retained earnings (parent share) x Dr. NCI (NCI's share) x Cr. Inventories x
Tax effect: Dr. Deferred tax asset x Cr. Group retained earnings x	Tax effect: Dr. Deferred tax asset x Cr. Group retained earnings (parent share) x Cr. Non-controlling interest (NCI share) x

STEPS IN CONSOLIDATION - with URP treatment

Tutorial note:

Step I	Determine percentage holding of Parent Co and non-controlling interest
Step II	Determine purchase consideration based on exchange ratio
Step III	Calculate pre-acquisition reserves
Step IV	Calculate goodwill
Step V	Calculate and eliminate unrealised profit on inventories. Since this is a downstream transaction, inventory of S Co is reduced and at the same time the retained earnings of P Co is reduced. Entry: Dr. Retained Earnings in P Co Cr. Inventories in S Co
Step VI	Calculate post-acquisition reserves
Step VII	Calculate non-controlling interest
Step VIII	Cancel out intra-group transactions and if there is any balance on receivables , treat this as goods-in-transit
Step IX	Cancel out intra-group loan stock
Step X	Consolidate all items of assets and liabilities line by line.

Treatment of URP on sale of non-current assets

Sale by parent to its subsidiary	Sale by subsidiary to its parent
URP lies in a) Non-current asset in subsidiary books b) Effect of depreciation if non-current asset is sold at a profit c) Profit in Parent books	URP lies in a) Non-current asset in parent books b) Effect of depreciation if non-current asset is sold at a profit c) Profit in subsidiary books
Effect: a) Deduct from non-current asset b) Adjust depreciation c) Deduct from SOCI of parent	Effect: a) Deduct from non-current asset b) Adjust depreciation c) Deduct from SOCI of subsidiary
Since profit is in parent books – NCI will not be impacted	Since profit is in subsidiary books, in case of partly owned subsidiary – NCI will be impacted
Entry on URP on non-current asset reversal Dr. Group retained earnings x Cr. Group Non-current asset x	Entry on URP of non-current asset reversal Dr. Group retained earnings (parent share) x Dr. NCI (NCI's share) x Cr. Group Non-current asset x
Tax effect: Dr. Deferred tax asset x Cr. Group retained earnings x	Tax effect: Dr. Deferred tax asset x Cr. Group retained earnings (parent share) x Cr. Non-controlling interest (NCI share) x
Entry on additional depreciation charged by subsidiary: (NCI is impacted) Dr. Group Non-current asset x Cr. Group retained earnings x Cr. Non-controlling interest x	Entry on additional depreciation charged by parent: (NCI not impacted) Dr. Group Non-current asset x Cr. Group retained earnings x
Tax effect: Dr. Group retained earnings x Dr. Non-controlling interest x Cr. Deferred tax asset x	Tax effect: Dr. Group retained earnings x Cr. Deferred tax asset x

Steps in consolidation – with URP treatment on sale of Non-current assets

Tutorial note:

Step I	Determine percentage holding of Parent Co and non-controlling interest
Step II	Determine purchase consideration
Step III	Calculate pre-acquisition reserves
Step IV	Calculate goodwill
Step V	Calculate and eliminate unrealised profit on sale of NCA. Since this is an upstream transaction, NCA of P Co is reduced and at the same time the retained earnings of S Co is reduced. Entry: Dr. Retained Earnings in S Co (parent share) Dr. NCI (NCI share) Cr. NCA in P Co
Step VI	Calculate additional depreciation write back and adjust it with retained earnings
Step VII	Calculate deferred tax asset on URP on NCA as well as reversal of deferred tax on additional depreciation written back
Step VIII	Calculate post-acquisition reserves
Step IX	Calculate non-controlling interest
Step X	Consolidate all items of assets and liabilities line by line.

Treatment of intra-group dividends

<table>
<tr><th>Dividends payable out of post-acquisition profit</th><th>Dividend paid out of pre-acquisition profit</th></tr>
<tr><td>In the consolidated SOFP:
- Dividend payable to parent is not reflected separately. It is cancelled out with the dividend receivable
- Dividend payable to the non-controlling interest is reflected as a current liability
(This is because the entire profit of subsidiary has been consolidated. If the dividend received by the parent company was also included, this would lead to double counting)</td><td>In the consolidated SOFP :
- Dividend payable by the parent is reflected as a liability in the consolidated SOFP
- Dividend payable by the subsidiary is:
a) NCI's share of dividend is reflected as current liability in the consolidated SOFP.
b) Parent's share in subsidiary's dividend is deducted from the cost of investment in the subsidiary.
c) This would result in reducing the amount of goodwill.
d) If the subsidiary is acquired during the year then we have to determine how much dividend is paid out of pre-acquisition profits. In the absence of any specific information, the dividend is assumed to have accrued evenly throughout the year.</td></tr>
<tr><td>In the consolidated statement of changes in equity:
- Dividend payable to NCI is reflected under NCI equity
- Under controlling equity, only the amount of dividend by the parent is shown
- Dividend payable to parent is not shown</td><td>No impact</td></tr>
</table>

Steps in consolidation – with intra-group Dividend adjustment

Tutorial note:

Step I	Determine percentage holding of Parent Co and non-controlling interest
Step II	Determine purchase consideration
Step III	Calculate pre-acquisition reserves
Step IV	Calculate goodwill
Step V	Segregate dividend of subsidiary payable out of pre-acquisition and post-acquisition profits
Step VI	Deduct parent's share of pre-acquisition dividend from cost of investment in calculating goodwill
Step VII	Add patent's share of post-acquisition dividend to retained earnings.
Step VIII	Calculate post-acquisition reserves
Step IX	Calculate non-controlling interest
Step X	Consolidate all items of assets and liabilities line by line.

Treatment of Fair value adjustments

Increase in fair value	Decrease in fair value
a)Dr. Group non-current asset x Cr. Goodwill x (Being non-current asset brought to fair value and the effect considered in goodwill calculation)	a)Dr. Goodwill x Cr. Group non-current asset x (Being non-current asset brought to fair value and the effect considered in goodwill calculation)
Difference between carrying value and fair value will be adjusted in calculating goodwill. NCI's share of fair value adjustments to individual assets / liabilities will be relevant only for calculation of NCI value using proportionate net asset method. If fair value method is used for NCI valuation, this need not be separately considered	Difference between carrying value and fair value will be adjusted in calculating goodwill. NCI's share of fair value adjustments to individual assets / liabilities will be relevant only for calculation of NCI value using proportionate net asset method. If fair value method is used for NCI valuation, this need not be separately considered

Treatment of Fair value adjustments (contd)

<table>
<tr><th>Increase in fair value</th><th>Decrease in fair value</th></tr>
<tr><td>b)Increase in depreciation – subsequent to increase in value of assets owing to fair value adjustment on acquisition date:
Dr. Group retained earning X
(parent share)
Dr.Non-controlling interest
(NCI share) x
Cr. Group non-current asset x
(Being additional depreciation accounted For)</td><td>b)decrease in depreciation – subsequent to decrease in value of assets owing to fair value adjustment on acquisition date:
Dr. Group non-current asset x
Cr. Group retained earning X
(parent share)
Cr. Non-controlling interest
(NCI share) x
(Being excess depreciation charged earlier written back)</td></tr>
<tr><td>c)Impact on valuation of goodwill:
- Increase in fair value of asset = value of goodwill decreases
- Increase in fair value of liabilities = value of goodwill increases</td><td>c)Impact on valuation of goodwill:
- Decrease in fair value of asset = value of goodwill increases
- Decrease in fair value of liabilities = value of goodwill decreases</td></tr>
<tr><td>d)Impact on deferred tax
An increase in fair value of asset and decrease in fair value of liabilities would lead to carrying value of net asset being more than tax base.
As a result in future taxable profit will be greater than accounting profits and would create a taxable temporary difference and hence a deferred tax liability as under:
Dr. Group retained earnings x
Cr. Deferred tax liability x
(Being deferred tax liability recognised owing to fair value adjustments)</td><td>d)Impact on deferred tax
A decrease in fair value of asset and increase in fair value of liabilities would lead to carrying value of net asset being less than tax base.
As a result in future taxable profit will be lower than accounting profits and would create a deductible temporary difference and hence a deferred tax asset as under:
Dr. Deferred tax asset x
Cr. Group retained earnings x
(Being deferred tax asset recognised owing to fair value adjustments)</td></tr>
</table>

Steps in consolidation – with fair value adjustments

Tutorial note:

Step I	Determine percentage holding of Parent Co and non-controlling interest
Step II	Determine purchase consideration
Step III	Calculate pre-acquisition reserves
Step IV	Calculate fair value of assets on acquisition date.
Step V	Calculate deferred tax on fair value changes on acquisition date.
Step VI	Calculate goodwill
Step VII	Calculate post-acquisition retained earnings.
Step VIII	Calculate deferred tax reversal if any on post-acquisition retained earnings on fair value changes e.g. additional depreciation on fair value changes on assets
Step IX	Calculate non-controlling interest
Step X	Consolidate all items of assets and liabilities line by line.

INDIAN ACCOUNTING STANDARDS
CONSOLIDATED FINANCIAL STATEMENTS
ASSOCIATES (IAS 28) AND JOINT ARRANGEMENTS (IFRS 11)

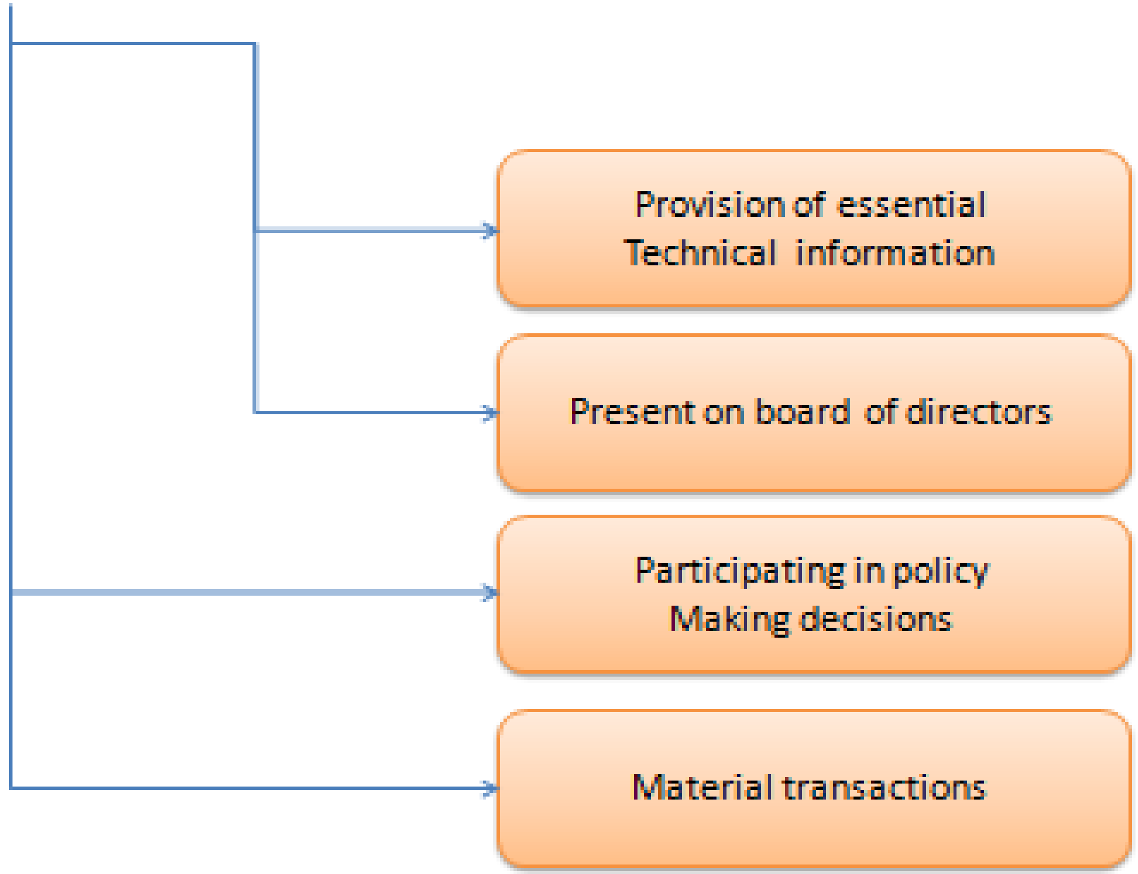
Who is an Associate?

An associate is an entity over which the investor has **significant influence.**

Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies (Ind AS 28 para 3)

IAS 28(Revised) : Investments in associates

- **What is significant influence -**



617

IAS 28(Revised) : Investments in associates

- Investing Company has significant influence when

It has direct holdings over another entity

It has indirect holdings over another entity

Holds over potential voting Rights in another entity

618

Significant influence is usually evidenced by

- Representation on the board of directors or corresponding governing body of the investee;
- Participation in policy making processes;
- Material transactions between the investor and the investee;
- Interchange of managerial personnel; or
- Provision of essential technical information.

What is Equity Method of Accounting

Equity method is a method of accounting whereby

- the investment is initially recognised at cost and
- adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets.
- The investor's profit or loss includes its share of the investee's profit or loss and
- the investor's other comprehensive income includes its share of the investee's other comprehensive income.

Equity Method of Accounting - Principles

In the consolidated SOFP	*On date of acquisition:* The investment in the associate company is stated at cost *On reporting date*: The investment in associate company will be reflected in the consolidated SOFP after making the following adjustments: a) If the associate makes a profit : group share of profit will be added to investment b) If the associate incurs a loss : group share of loss will be deducted from the investment The procedures used for determining the profit / loss under the equity method are similar to those used for determining profit / loss under the full consolidation method
In the consolidated SOCI	*On the date of acquisition:* The pre-acquisition profits have to be revised, to incorporate all fair value adjustments. The group's share in the revised profit will be deducted from consideration in arriving at goodwill. *On reporting date:* The group's share in the post-acquisition profits of the associate company is included in the consolidated SOCI

Equity Method of Accounting - Process

- Eliminate intra group profits and losses arising from transactions between investor and investee
- identify the goodwill portion of the purchase price
- amortize goodwill
- Make adjustments for depreciation of depreciable assets , based on their fair values
- Make adjustments for the effect of cross holdings if any using uniform accounting policies

Illustration : Equity Method of Accounting

Alpha Inc acquired 40% interest in the ordinary shares of Beta Inc on the date of incorporation Jan 1 2018 for an amount of Rs. 22000. This enabled Alpha Inc to exercise significant influence over Beta Inc. On Dec 2021 the shareholders equity of Beta Inc was as follows:

	Rs
Ordinary issued share capital	55000
Reserves	18000
Accumulated profit	65000
TOTAL	138000

Extract of Income statement and statement of changes in equity:

Income statement

PAT	22800
Extraordinary items	(1200)
Net profit for the period	21600
Statement of change in equity	
Accumulated profit (beginning of the year)	65000
Net profit for the period	21600
Dividend paid	(8000)
Accumulated profit at the end of the year	78600

In Nov 2022 Alpha Inc sold inventories to Beta Inc for the first time at Rs. 5000 and earned a profit of Rs. 1000. None of the inventories were sold by Dec 31. IT rate 30%.

Illustration: Equity Method of Accounting

Solution

Calculation of equity method	Rs.
Ordinary cost (Rs.55000 X 40%)	22000
Post-acquisition profit beginning of the year ((18000+65000)X40%)	33200
Carrying amount (Jan 1 2010)	**55200**
Attributable portion of net profit (Schedule I)	8360
Dividend received (8000 X 40%)	(3200)
	60360

Schedule I

Attributable portion of net profit	
Net profit (21600 X 40%)	8640
After tax effect of unrealized profit <40%X(70%X1000)>	(280)
Total (as above)	8360

Intra-group profits related to associates - treatment

Downstream transactions	**Upstream transactions**
If the sale of goods / assets at profit is made by the investor to the associate, it is known as a downstream transaction.	If the sale of goods / assets at profit is made by the associate to the investor, it is known as upstream transaction.
The entry is as under: Dr. Cost of sales (CSOCI) Cr. Investment in associate (CSOFP) (Being the elimination of group's share in unrealised intra-group profits)	The entry is as under: Dr. Cost of sales (CSOCI) Cr. Inventory (CSOFP) (Being elimination of URP on inventory owing to upstream transactions)
Rationale: In this case, URP is included in the associate's inventory, but associate's inventory is not shown in the investor's financial statements as it does not consolidate the accounts of the associate. Hence URP needs to be eliminated from the investment and not from inventory.	Rationale: In this case, URP is included in the investor's inventory which is included in consolidated financial statements. Hence, URP needs to be eliminated from the inventory and corresponding effect will always go to cost of sales / retained earnings

Goodwill, bargain purchases, losses related to associates - treatment

Goodwill	Bargain purchase
Cost of investment x (A) Less: Investor's share of net fair Value of associate's Identifiable net assets x (B) Goodwill (A – B) X	Cost of investment x (A) Less: Investor's share of net fair Value of associate's Identifiable net assets x (B) Goodwill (B – A) X
Positive goodwill is already included in the cost of investment and so needs no further accounting treatment	The gain on bargain purchase will be added to the carrying amount of investment. Therefore in the consolidated financial statements, investment in associate will be increased to that effect.

All adjustments made for goodwill impairment and fair value changes in accounting for subsidiaries are also made in accounting for associates
If the group's share of losses pertaining to the associate exceeds its investment in the associate, then the investor has to stop accounting for further losses. Hence the cost of investment will be recorded as nil in the consolidated financial statements. Only losses will be reflected in the consolidated financial statements if the investor has directly made some payment or guarantees on behalf of the associate.

Joint Arrangements – Ind AS 111

Major changes to joint venture accounting	Joint ventures will no longer be classified as jointly controlled operations, jointly controlled assets and jointly controlled entities
	Joint arrangements are classified as either joint operations or joint ventures, the accounting treatment will depend on classification
	Proportionate consolidation is not permitted for joint ventures as defined by the new standard
	Joint ventures that are accounted for using proportionate consolidation method under the current IFRS will be accounted for using the equity method under IFRS 11
	A joint operator is required to recognise certain items in relation to its interest in a joint operation as under: - Its assets, including its share of any assets held jointly - Its liabilities, including its share of any liabilities incurred jointly - Its revenue from sale of its share of the output of the joint operation - Its share of the revenue from the sale of the output by the joint operation - Its expenses, including its share of any expenses incurred jointly

Joint Arrangements – IND AS 111

- Joint Arrangements
  - Joint Operations
  - Joint Venture

Joint Arrangements – Ind AS 111

Joint operations	Joint venture
Definition Joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to a)the assets and b)the obligations for the liabilities, relating to the arrangement (IFRS 11 Appendix A)	**Definition** Joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. (IFRS 11 Appendix A)
Characteristic Each joint operator may: a)use its own property, plant and equipment b)carry its own inventories c)incur own expenses and liabilities d)raise its own finance, which represents its own obligations Alternatively, each joint operator may have joint control and often joint ownership of one or more assets: a)contributed to or acquired for the purpose of the joint arrangement, and b)dedicated to the purposes of the arrangement According to joint venture agreement, each joint operator may take a share of the output from the assets and each bears an agreed share of the revenues earned and expenses incurred	**Characteristic** In this type of joint arrangements, the venturers establish a corporation, partnership or other separate entity in order to undertake an economic activity The entities operate in the same way as other entities. The only distinguishing feature is that there exists contract between the venturers in order to establish joint control over the financial and operating decisions related to the activity.

Joint Arrangements – Ind AS 111

Joint operations	Joint venture
Accounting treatment A joint operator would recognise in its books: a)its assets, including its share of assets held jointly, b) its liabilities, including its share of assets held jointly, c)its revenues from the sale of its share of the output of the joint operation, d)its share of the revenue from the sale of the output by the joint operation , and e)its expenses, including its share of any expenses incurred jointly A joint operator accounts for the assets, liabilities, revenues and expenses related to its involvement in joint operation in accordance with the relevant IFRSs. A joint arrangement which is not in the form of a separate vehicle –e.g. a separate legal entity, would compulsorily be treated as joint operation.	**Accounting treatment** Joint venture has to maintain its own accounting records and prepare and present financial statements in the same way as other entities according to the requirements of the IFRSs. Each venturer usually contributes cash or other resources to the joint venture. These contributions are included in the accounting records of the venturer and recognised in its financial statements as an investment in the joint venture. A venturer needs to recognise its interest in a joint venture using the equity method.
Legal form If in accordance with the legal form, parties are conferred direct rights to assets and obligation to its liabilities, then it is a joint operation	**Legal form** If the arrangement is structured through a separate vehicle it becomes a joint venture
Contractual arrangement If in accordance with the contractual arrangement, parties have rights to assets and obligation for liabilities – and not the entity – then the arrangement is a joint operation	**Contractual arrangement** If no such contractual arrangement is there, but is covered by a separate legal entity it is a joint venture

Comparative Accounting treatment of standards

Investment	Nature	Accounting treatment
Investment > 50% control	Subsidiary	Full consolidation – line by line
Significant influence – between > 20% and < 50%	Associate	Equity method
In case of joint control	Joint venture	Equity method
In case of joint control	Joint operation	Share of assets, liabilities, income and expenses in a joint operation
< 20% investment and not a joint venture	None of the above	Treatment in accordance with IFRS 9

THANK YOU!