UNIT 4:
CONSOLIDATION PROCEDURE FOR SUBSIDIARIES

4.1 OVERVIEW

The consolidated financial statement includes following:

- Consolidated balance sheet
- Consolidated statement of profit and loss
- Consolidated statement of changes in equity
- Consolidated cash flow statement
- Consolidated notes to the financial statements

When a company is required to prepare consolidated financial statements, the company shall mutatis mutandis follow the requirements of Division II of Schedule III to the Companies Act, 2013 as applicable to a company in the preparation of balance sheet, statement of changes in equity and statement of profit and loss. In addition, the consolidated financial statements shall disclose the information as per the requirements specified in the applicable Ind AS. In addition, the company shall disclose additional information as required by Ind AS 27 and Ind AS 112 (Refer Unit 8).

4.2 CONSOLIDATION PROCEDURE FOR SUBSIDIARIES

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.

Following are the key concepts relating to preparation of consolidated financial statements:

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Calculation of goodwill / capital reserve and determination of non-controlling interest on the date of acquisition of control over a subsidiary
Calculation of goodwill / capital reserve when the interest in subsidiary is acquired on different dates (i.e. step acquisition)
How to account for control obtained over a subsidiary without transfer of consideration?
Requirement to have uniform accounting policies
How the income and expense of a subsidiary should be measured for while consolidating them in the parent's consolidated financial statements?
How the potential voting rights held in subsidiary should be accounted?
How to deal with different reporting periods of parent and subsidiary?
Dividend from subsidiary: How to account for it and its impact on non-controlling interest?
Requirement to eliminate intra-group transaction and elimination of unrealised profit / loss
Allocating share in profit / loss to non-controlling interest and accounting of change in the proportion held by controlling and non-controlling interests
Preparation of consolidated financial statements using all the above principles
How to account for chain-holding under consolidation?

Each of the above concepts are explained in detail below. When a parent loses control over a subsidiary, it will stop consolidating that subsidiary. The principles of accounting in case of loss of control over a subsidiary are discussed in section 4.3 below.

4.2.1 Calculation of goodwill / capital reserve and determination of non-controlling interest on the date of acquisition of control over a subsidiary

The guidance related to calculation of goodwill / capital reserve on acquisition of a subsidiary is provided in **Ind AS 103** *'Business Combinations'*. A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses.

Calculation of goodwill

An entity that acquires interest in a subsidiary shall recognise goodwill on the acquisition date. Goodwill is measured as the **excess of (a) over (b)** below:

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a) The aggregate of

   a. the consideration transferred measured in accordance with Ind AS 103, which generally requires acquisition-date fair value; and

   b. the amount of any non-controlling interest in the acquiree measured in accordance with Ind AS 103;

   c. in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree

b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with Ind AS 103. (Ind AS 103 requires the net assets acquired to be measured at fair value except in case of a common control business combination transaction. Such transaction is explained in more detail in chapter 12).

Calculation of capital reserve

In extremely rare circumstances, an acquirer will make a bargain purchase in a business combination in which the amount in b) mentioned above exceeds the aggregate of the amounts specified in a) above. If that excess remains after applying certain requirements of paragraph 36 of Ind AS 103, then the acquirer shall recognise the resulting gain in other comprehensive income on the acquisition date and accumulate the same in equity as capital reserve. The gain shall be attributed to the acquirer. In all other cases, the excess of b) over a) above shall be recognised directly in equity as a capital reserve.

Measurement of non-controlling interest

Non-controlling interest is the equity **not attributable, directly or indirectly, to a parent**.

Non-controlling interest in the acquiree are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation.

For each business combination, the acquirer shall **measure at the acquisition date** components of non-controlling interest that give the holder ownership interest in the acquiree at either:

a) Fair value or

b) The present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets

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Summary of calculation of goodwill / capital reserve

To summarise, following steps are involved in calculation of goodwill / capital reserve:

Step 1: Determine the fair value of consideration transferred

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Step 2: Determine the amount of non-controlling interest

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Step 3: Determine the fair value of subsidiary's identifiable net assets as per Ind AS 103

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Step 4: Determine goodwill / gain on bargain purchase (i.e. capital reserve)

Illustration 1: Determination of goodwill

A Limited acquires 80% of B Limited by paying cash consideration of ₹ 120 crore. The fair value of non-controlling interest on the date of acquisition is ₹ 30 crore. The value of subsidiary's identifiable net assets as per Ind AS 103 is ₹ 130 crore. Determine the value of goodwill and pass the journal entry.

Solution:

The amount of non-controlling interest can be measured as per i) Fair value method or ii) Proportionate share method (i.e. proportionate share in the net identifiable assets of the acquiree). The value of goodwill will be different under both the methods. The goodwill is calculated as per both the methods below:

Fair value method	**₹ crore**
Fair value of consideration transferred	120
Fair value of non-controlling interest	30
	150
Value of subsidiary's identifiable net assets as per Ind AS 103	(130)
Goodwill	**20**
Proportionate share method	**₹ crore**
Fair value of consideration transferred	120
Proportional share of non-controlling interest in the net identifiable assets of acquiree (130 x 20%)	26
	146
Value of subsidiary's identifiable net assets as per Ind AS 103	(130)
Goodwill	**16**

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Journal Entries

Fair value method		**₹ crore**	
		Dr.	Cr.
Net identifiable assets	Dr.	130	
Goodwill	Dr.	20	
To Bank			120
To Non-controlling interest			30
Proportionate share method		**₹ crore**	
		Dr.	Cr.
Net identifiable assets	Dr.	130	
Goodwill	Dr.	16	
To Bank			120
To Non-controlling interest			26

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Illustration 2: Determination of goodwill

Ram Ltd. acquires 60% of Raja Ltd. by paying cash consideration of ₹ 750 lakh (including control premium). The fair value of non-controlling interest on the date of acquisition is ₹ 480 lakh. The value of subsidiary's identifiable net assets as per Ind AS 103 is ₹ 1,000 lakh. Determine the value of goodwill and pass the journal entry.

Solution:

The amount of non-controlling interest can be measures wither as per i) Fair value method or ii) Proportionate share method (i.e. proportionate share in the net identifiable assets of the acquiree). The value of goodwill will be different under both the methods. The goodwill is calculated as per both the methods below:

Fair value method	₹ lakh
Fair value of consideration transferred	750
Fair value of non-controlling interest	480
	1,230
Value of subsidiary's identifiable net assets as per Ind AS 103	(1,000)
Goodwill	**230**

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Proportionate share method	₹ lakh
Fair value of consideration transferred	750
Proportional share of non-controlling interest in the net identifiable assets of acquiree (1,000 x 40%)	400
	1,150
Value of subsidiary's identifiable net assets as per Ind AS 103	(1,000)
Goodwill	**150**

Journal Entries

Fair value method		₹ lakh	
		Dr.	Cr.
Net identifiable assets	Dr.	1,000	
Goodwill	Dr.	230	
To Bank			750
To Non-controlling interest			480
Proportionate share method		**₹ lakh**	
		Dr.	Cr.
Net identifiable assets	Dr.	1,000	
Goodwill	Dr.	150	
To Bank			750
To Non-controlling interest			400

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Illustration 3: Determination of gain on bargain purchase

X Ltd. acquires 80% of Y Ltd. by paying cash consideration of ₹ 400 lakh. The fair value of non-controlling interest on the date of acquisition is ₹ 100 lakh. The value of subsidiary's identifiable net assets as per Ind AS 103 is ₹ 520 lakh. Determine the value of gain on bargain purchase and pass the journal entry.

Solution:

The amount of non-controlling interest can be measured as per i) Fair value method or ii) Proportionate share method (i.e. proportionate share in the net identifiable assets of the acquiree). The value of gain on bargain purchase will be different under both the methods. The gain is calculated as per both the methods below:

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Fair value method	**₹ lakh**
Fair value of consideration transferred	400
Fair value of non-controlling interest	100
	500
Value of subsidiary's identifiable net assets as per Ind AS 103	(520)
Gain on bargain purchase	**(20)**
Proportionate share method	**₹ lakh**
Fair value of consideration transferred	400
Proportional share of non-controlling interest in the net identifiable assets of acquiree (520 x 20%)	104
	504
Value of subsidiary's identifiable net assets as per Ind AS 103	(520)
Gain on bargain purchase	**(16)**

Journal Entries

Fair value method		**₹ lakh**	
		Dr.	Cr.
Net identifiable assets	Dr.	520	
To Bank			400
To Gain on bargain purchase*			20
To Non-controlling interest			100
Proportionate share method		₹ lakh	
		Dr.	Cr.
Net identifiable assets	Dr.	520	
To Bank			400
To Gain on bargain purchase*			16
To Non-controlling interest			104

***** Gain on bargain purchase is either recognised in OCI or is recognised directly in equity as a capital reserve.

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Illustration 4: Determination of goodwill when there is no non-controlling interest

M Ltd. acquires 100% of N Ltd. by paying cash consideration of ₹ 100 lakh. The value of subsidiary's identifiable net assets as per Ind AS 103 is ₹80 lakh. Determine the value of goodwill.

Solution:

The value of goodwill is calculated as follows:

Determination of goodwill	**₹ lakh**
Fair value of consideration transferred	100
Value of subsidiary's identifiable net assets as per Ind AS 103	(80)
Goodwill	**20**

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4.2.2 Calculation of goodwill / capital reserve when the interest in subsidiary is acquired on different dates (i.e. step acquisition)

An entity may be holding some equity interest in a subsidiary immediately before it obtained control over the subsidiary.

Example 1

On 1 April 20X1, A Ltd. Was holding 25% stake in B Ltd. On that date, A Ltd. Acquired further 40% stake in B Ltd. And thereby obtained control over B Ltd.

Such transaction is referred to as business combination achieved in stages or also referred to as step acquisition.

In a business combination achieved in stages, the acquirer shall **remeasure its previously held equity interest** in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

A change from holding a non-controlling investment in an entity to obtaining control of that entity is a significant change in the nature of and economic circumstances surrounding that investment. That change warrants a change in the classification and measurement of that investment. Once it obtains control, the acquirer is no longer the owner of a non-controlling investment asset in the acquiree. The acquirer therefore ceases its accounting for an investment asset and begins reporting in its financial statements the underlying assets, liabilities and results of operations of the acquiree. In effect, the acquirer exchanges its status as an owner of an investment asset in an entity for a controlling financial interest in all of the underlying assets and liabilities of that entity (acquiree) and the right to direct how the acquiree and its management use those assets in

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its operations. In a business combination achieved in stages, the acquirer derecognises its investment asset in an entity in its consolidated financial statements when it achieves control. Thus, it is appropriate to recognise any resulting gain or loss in profit or loss at the acquisition date.

In prior reporting periods, the acquirer may have recognised changes in the value of its equity interest in the acquiree in other comprehensive income (refer Chapter 11 which contains guidance on accounting for investments in equity instruments which are measured at fair value through other comprehensive income). If so, the amount that was recognised in other comprehensive income shall be recognised on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest. In other words, the gains or losses from changes in the fair value accumulated in other comprehensive income would never be reclassified to profit or loss but may be transferred into the retained earnings on 'deemed disposal' of the investment, which is consistent with the accounting in case of 'actual disposal' of such an investment.

Illustration 5: Step acquisition

RS Ltd. holds 30% stake in PQ Ltd. This investment in PQ Ltd. is accounted as an investment in associate in accordance with Ind AS 28 and the carrying value of such investment in ₹ 100 lakh. RS Ltd. purchases the remaining 70% stake for a cash consideration of ₹ 700 lakh. The fair value of previously held 30% stake is measured to be ₹ 300 lakh on the date of acquisition of 70% stake. The value of PQ Ltd.'s identifiable net assets as per Ind AS 103 on that date is ₹ 800 lakh. How should RS Ltd. account for the business combination?

Solution:

The amount of goodwill is calculated as follows:

Determination of goodwill	**₹ lakh**
Fair value of consideration transferred	700
Fair value of previously held equity interest	300
	1,000
Value of subsidiary's identifiable net assets as per Ind AS 103	(800)
Goodwill	**200**

RS Ltd. should record the difference between the fair value of previously held equity interest in the subsidiary and the carrying value of that interest in the profit or loss i.e. ₹ 200 lakh (300 – 100) should be recognised in profit or loss.

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Journal Entry

Fair value method		₹ lakh	
		Dr.	Cr.
Net identifiable assets	Dr.	800	
Goodwill	Dr.	200	
To Bank			700
To Investment in associate			100
To Gain on fair valuation of previously held equity interest			200

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4.2.3 Control obtained over a subsidiary without the transfer of consideration

An acquirer sometimes obtains control of an acquiree without transferring consideration. Such circumstances include:

(a) The **acquiree repurchases** a sufficient number of its own shares for an existing investor (the acquirer) to obtain control.

(b) **Minority veto rights lapse** that previously kept the acquirer from controlling an acquiree in which the acquirer held the majority voting rights.

(c) The acquirer and acquiree agree to combine their businesses **by contract** alone. The acquirer transfers no consideration in exchange for control of an acquiree and holds no equity interests in the acquiree, either on the acquisition date or previously. Examples of business combinations achieved by contract alone include bringing two businesses together in a stapling arrangement or forming a dual listed corporation.

In a business combination achieved without the transfer of consideration, "acquisition-date fair value of the consideration transferred" in the formula for measurement of goodwill or gain on bargain purchase is substituted by "acquisition-date fair value of its interest in the acquiree". In other words, the acquirer shall remeasure its existing equity interest in the acquiree at its acquisition date fair value (and recognise the gain or loss on such remeasurement in profit or loss or other comprehensive income, as the case may be) and use that to compute goodwill or gain on bargain purchase.

In a business combination achieved by contract alone, the acquirer shall attribute to the owners of the acquiree (i.e. those holding equity interests) the amount of the acquiree's net assets recognised in accordance with Ind AS 103. In other words, the equity interests in the acquiree held by parties

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other than the acquirer are a non-controlling interest in the acquirer's post-combination financial statements even if the result is that all of the equity interests in the acquiree are attributed to the non-controlling interest.

Example 2

A Ltd. obtained control over B Ltd. by contract alone. There is no stake in B Ltd. held by A Ltd. So, while preparing the consolidated financial statements, A Ltd. will attribute 100% of the net assets of B Ltd. to the non-controlling interest.

4.2.4 Uniform accounting policies

A parent shall prepare consolidated financial statements using uniform accounting policies for **like transactions and other events in similar circumstances**.

If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that group member's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.

Example 3

A Ltd. (a company incorporated and registered in India) has a subsidiary B Inc. (a company incorporated and registered in United States). A Ltd. follows Ind AS for the preparation of its financial statements. However, B Inc. follows generally accepted accounting principles in United States (US GAAP). Hence, while using B Inc.'s financial statements for the purpose of preparing consolidated financial statements of A Ltd., appropriate adjustments should be made to B Inc.'s financial statements to convert its US GAAP financial statements to Ind AS financial statements.

Illustration 6: Uniform accounting policies

PQR Ltd. is the subsidiary company of MNC Ltd. In the individual financial statements prepared in accordance with Ind AS, PQR Ltd. has adopted Straight-line method (SLM) of depreciation and MNC Ltd. has adopted written-down value method (WDV) for depreciating its property, plant and equipment. As per Ind AS 110, Consolidated Financial Statements, a parent shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.

How will these property, plant and equipment be depreciated in the consolidated financial statements of MNC Ltd. prepared as per Ind AS?

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Solution:

As per paragraph 60 and 61 of Ind AS 16, 'Property, Plant and Equipment', a change in the method of depreciation shall be accounted for as a change in an accounting estimate as per Ind AS 8 *'Accounting Policies, Changes in Accounting Estimates and Errors'*.

Therefore, the selection of the method of depreciation is an accounting estimate and not an accounting policy.

The entity should select the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. That method should be applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits in separate financial statements as well as consolidated financial statements.

Therefore, there can be different methods of estimating depreciation for property, plant and equipment, if their expected pattern of consumption is different. The method once selected in the individual financial statements of the subsidiary should not be changed while preparing the consolidated financial statements.

Accordingly, in the given case, the property, plant and equipment of PQR Ltd. (subsidiary company) may be depreciated using straight line method and property, plant and equipment of parent company (MNC Ltd.) may be depreciated using written down value method, if such method closely reflects the expected pattern of consumption of future economic benefits embodied in the respective assets.

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Illustration 7: Uniform accounting policies

H Limited has a subsidiary, S Limited and an associate, A Limited. The three companies are engaged in different lines of business.

These companies are using the following cost formulas for their valuation in accordance with Ind AS 2 'Inventories'.

Name of the Company	***Cost formula used***
H Limited	*FIFO*
S Limited, A Limited	*Weighted average cost*

Whether H Limited is required to value inventories of S Limited and A Limited also using FIFO formula in preparing its consolidated financial statements?

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Solution:

Paragraph 19 of Ind AS 110 states that a parent shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.

Paragraph B87 of Ind AS 110 states that if a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that group member's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.

It may be noted that the above mentioned paragraphs require an entity to apply uniform accounting policies "for like transactions and events in similar circumstances". If any member of the group follows a different accounting policy for like transactions and events in similar circumstances, appropriate adjustments are to be made in preparing consolidated financial statements.

Paragraph 5 of Ind AS 8 defines accounting policies as "the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements."

Ind AS 2 requires inventories to be measured at the lower of cost and net realisable value.

Paragraph 25 of Ind AS 2 states that the cost of inventories shall be assigned by using FIFO or weighted average cost formula. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified.

Elaborating on the requirements of paragraph 25, paragraph 26 of Ind AS 2 illustrates that inventories used in one operating segment may have a use to the entity different from the same type of inventories used in another operating segment. However, a difference in geographical location of inventories (or in the respective tax rules), by itself, is not sufficient to justify the use of different cost formulas.

Paragraph 36(a) of Ind AS 2 requires disclosure of "the accounting policies adopted in measuring inventories, including the cost formula used". Thus, as per Ind AS 2, the cost formula applied in valuing inventories is also an accounting policy.

As mentioned earlier, as per Ind AS 2, different cost formulas may be justified for inventories of a different nature or use. Thus, if inventories of S Limited and A Limited differ in nature or use from inventories of H Limited, then use of cost formula (weighted average cost) different from that applied in respect of inventories of H Limited (FIFO) in consolidated financial statements may be justified. In other words, in such a case, no adjustment needs to be made to align the cost formula applied by S Limited and A Limited to cost formula applied by H Limited.

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4.2.5 Measurement of income and expense of subsidiary

An entity includes the income and expenses of a subsidiary in the consolidated financial statements **from the date it gains control** until the date when the entity ceases to control the subsidiary.

Income and expenses of the subsidiary are based on the amounts of the assets and liabilities recognised in the consolidated financial statements at the acquisition date.

Example 4

On the date of acquisition of control by A Ltd over B Ltd., the fair value of B Ltd.'s property, plant and equipment were ₹ 100 lakh and such assets are recorded in the consolidated financial statements of A Ltd. at that value. However, the carrying value of such assets in the books of B Ltd. on the date of acquisition were ₹ 80 lakh. Hence, for the purpose consolidated financial statements, the depreciation expense should be computed based on ₹ 100 lakh and not ₹ 80 lakh.

4.2.6 Accounting of potential voting rights held in subsidiary

When potential voting rights, or other derivatives containing potential voting rights, exist, the proportion of profit or loss and changes in equity allocated to the parent and non-controlling interests in preparing consolidated financial statements is determined solely on the basis of existing ownership interests and **does not reflect the possible exercise or conversion of potential voting rights** and other derivatives. Such instruments with potential voting rights are **accounted as per Ind AS 109.**

However, there can be some cases where an entity has, in substance, an existing ownership interest as a result of a transaction that currently gives the entity access to the returns associated with an ownership interest. In such circumstances, the proportion allocated to the parent and non-controlling interests in preparing consolidated financial statements is determined by taking into account the eventual exercise of those potential voting rights and other derivatives that currently give the entity access to the returns. Accordingly, Ind AS 109 is not applied to instruments containing potential voting rights in such circumstances.

- This can be the situation where, **for example**, an investor currently holds 60% of the voting power of an investee (and hence controls the investee) has a purchase option to acquire additional 20% voting power in the investee and the terms of the contract provides that the investor will also get the returns on the underlying shares even for the period prior to the date of actual exercise of the option.

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4.2.7 Reporting period of parent and subsidiary

The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall have the **same reporting date**.

When the end of the reporting period of the parent is different from that of a subsidiary (e.g. parent's financial year ends on 31 March 20X1 but the subsidiary's financial year ends on 31 December 20X0), the subsidiary prepares, **for consolidation purposes**, additional financial information as of the same date as the financial statements of the parent to enable the parent to consolidate the financial information of the subsidiary, unless it is impracticable to do so.

If it is impracticable to do so, the parent shall consolidate the financial information of the subsidiary using the **most recent financial statements** of the subsidiary adjusted for the **effects of significant transactions or events** that occur between the date of those financial statements and the date of the consolidated financial statements. In any case, the difference between the date of the subsidiary's financial statements and that of the consolidated financial statements **shall be no more than three months**.

The length of the reporting periods and any difference between the dates of the financial statements shall be the same from period to period. This means that if the financial statements of a subsidiary used for consolidation in previous periods were ending on different dates than that of the parent whereas the financial statements used for current period end on the same date as that of the parent then the comparatives for previous period should be restated to have comparison of equivalent periods.

Illustration 8: Different reporting dates

How should assets and liabilities be classified into current or non-current in consolidated financial statements when parent and subsidiary have different reporting dates?

Solution:

Paragraphs B92 and B93 of Ind AS 110 require subsidiaries with reporting period end different from parent, to provide additional information or details of significant transactions or events if it is impracticable to provide additional information to enable the parent entity to consolidate such financial information at group's reporting period end.

The appropriate classification of the assets and liabilities as current or non-current in the consolidated financial statements has to be determined by reference to the reporting period end of the group. Accordingly, when a subsidiary's financial statements are for a different reporting period end, it is necessary to review the subsidiary's balance sheet to ensure that items are correctly classified as current or non-current as at the end of the group's reporting period.

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For example, a subsidiary with the financial year end of 31st December, 20X1 has a payable outstanding that is due for payment on 1st January, 20X3, and has accordingly classified it as non-current in its balance sheet. The financial year end of the parent's consolidated financial statements is 31st March 20X2. Due to the time lag, the subsidiary's payable falls due within 12 months from the end of the parent's reporting period.

Accordingly, in this case, the payable should be classified as a current liability in the consolidated financial statements of the parent because the amount is repayable within nine months of the end of the parent's reporting period.

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Illustration 9: Different reporting dates

A Limited, an Indian Company has a foreign subsidiary, B Inc. Subsidiary B Inc. has taken a long-term loan from a foreign bank, which is repayable after the year 20X9. However, during the year ended 31st March, 20X2, it breached one of the conditions of the loan, as a consequence of which the loan became repayable on demand on the reporting date. Subsequent to year end but before the approval of the financial statements, B Inc. rectified the breach and the bank agreed not to demand repayment and to let the loan run for its remaining period to maturity as per the original loan terms. While preparing its standalone financial statements as per IFRS, B Inc. has classified this loan as a current liability in accordance with IAS 1 'Presentation of Financial Statements'.

Whether A limited is required to classify such loan as current while preparing its consolidated financial statement under Ind AS?

Solution:

As per paragraph 74 of Ind AS 1, where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.

The above position under Ind AS 1 differs from the corresponding position under IAS 1. As per paragraph 74 of IAS 1, when an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the recognized on of the financial statements for issue, not to demand payment as a consequence of the breach. An entity classifies the liability as current because, at the end of the reporting period, it does not have an unconditional right to defer its settlement for at least twelve months after that date.

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Accordingly, the loan liability recognized as current liability by B Inc. in its standalone financial statements prepared as per IFRS, should be aligned as per Ind AS in the consolidated financial statements of A Limited and should be classified as non-current in the consolidated financial statements of A Limited in accordance with Ind AS 1.

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4.2.8 Accounting of dividend from subsidiary and its impact on non-controlling interest

As per para 5.7.1A of Ind AS 109, dividends are recognized in profit or loss by an investor entity only when:

- The entity's **right to receive** payment of the dividend is established,
- It is **probable** that the economic benefits associated with the dividend will flow to the entity, and
- the amount of the dividend can be **measured reliably**.

As per para 12 of Ind AS 27, an entity shall recognize a dividend from a subsidiary in its separate financial statements when its right to receive the dividend is **established**.

As per the Companies Act, 2013, the entity's right to receive the dividend is established when it is declared by the shareholders in the annual general meeting of the company.

An investor should recognise a dividend from a subsidiary, a joint venture or an associate as income in its separate financial statements. As per Ind AS 36, declaration of dividend by a subsidiary, associate or joint venture coupled with a few more evidence is an indication of impairment of investment.

Illustration 10: Dividend proposed by subsidiary

XYZ Ltd. purchased 80% shares of ABC Ltd. on 1st April, 20X1 for ₹ 1,40,000. The issued capital of ABC Ltd., on 1st April, 20X1 was ₹ 1,00,000 and the balance in the Statement of Profit and Loss was ₹ 60,000.

For the year ending on 31st March, 20X2 ABC Ltd. has earned a profit of ₹ 20,000 and later on it declared and paid a dividend of ₹ 30,000.

Assume, the fair value of non-controlling interest is same as the fair value on a per-share basis of the purchased interest#. All net assets are identifiable net assets, there are no non-identifiable assets. The fair value of identifiable net assets is ₹ 1,50,000.

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Show by an entry how the dividend should be recorded in the books of XYZ Ltd. Whenever it is received after approval in the ensuing annual general meeting.

What is the amount of non-controlling interest as on 1st April, 20X1 (using Fair value Method) and 31st March, 20X2? Also pass a journal entry on the acquisition date.

(#This assumption is only for illustration purpose. However, in practical scenarios the fair value of NCI will be different than the fair value of the controlling interest.)

Solution:

XYZ Ltd.'s share of dividend ₹ 30,000 x 80% = ₹ 24,000.

		₹	
		Dr.	Cr.
Bank	Dr.	24,000	
To Profit & Loss A/c			24,000

Calculation of Non- controlling interest and Journal Entry

NCI on 1st April 20X1 = 20% of the fair value on a pre-share basis of the purchased interest.

= 20% x ₹ 1,75,000 (W.N.1) = ₹ 35,000

The journal entry recorded on the acquisition date for the 80% interest acquired is as follows:

		₹	
		Dr.	Cr.
Identifiable net assets	Dr.	1,50,000	
Goodwill (Balancing Figure)	Dr.	25,000	
To Bank			1,40,000
To NCI			35,000

Working Note 1

Fair value on a per-share basis of the purchased interest / Fair Value of Identifiable net assets

= consideration transferred x 100/80

= 1,40,000 x 100/80 = ₹ 1,75,000

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NCI on 31st March 20X2 = NCI on 31st March 20X1 + Share of NCI in Profits of 20X1- 20X2

= 35,000 + (20,000 X 20%) = ₹ 39,000

Note: Dividend as per Ind AS will be recognized only when approval by the shareholder is received in the annual general meeting.

*****

Illustration 11: Dividend proposed by subsidiary

From the facts given in the above illustration, calculate the amount of non-controlling interest as on 1st April, 20X1 (Using NCI's proportionate share method) and 31st March, 20X2.

Also pass a journal entry on the acquisition date.

Solution:

NCI on 1st April 20X1 = 20% of the fair value on identifiable assets.

= 20% x ₹ 1,50,000 = ₹ 30,000

The journal entry recorded on the acquisition date for the 80% interest acquired is as follows:

		₹	
		Dr.	Cr.
Identifiable net assets	Dr.	1,50,000	
Goodwill (Balancing Figure)	Dr.	20,000	
To Bank			1,40,000
To NCI			30,000

NCI on 31st March 20X2 = NCI on 31st March 20X1 + Share of NCI in Profits of 20X1- 20X2

= 30,000 + (20,000 X 20%) = ₹ 34,000

Note: Dividend as per Ind AS will be recognized only when approval by the shareholder is received in the annual general meeting.

*****

Illustration 12: Dividend proposed by subsidiary

The facts are same as in the above illustration except that the fair value of net identifiable asset is ₹ 1,60,000. Calculate NCI and Pass Journal Entry on the acquisition date

Note: Use fair value method for 31st March 20X1.

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Solution:

Calculation of Non- controlling interest and Journal Entry

NCI on 1st April 20X1 = 20% of the fair value on a pre-share basis of the purchased interest.

= 20% x ₹ 1,75,000 (W.N.1) = ₹ 35,000

The journal entry recorded on the acquisition date for the 80% interest acquired is as follows:

		₹	
		Dr.	**Cr.**
Identifiable net assets	Dr.	1,60,000	
Goodwill (Balancing Figure)	Dr.	15,000	
To Bank			1,40,000
To NCI			35,000

Working Note

Fair value on a per-share basis of the purchased interest / Fair Value of Identifiable net assets

= consideration transferred x 100/80

= 1,40,000 x 100/80 = ₹ 1,75,000

NCI on 31st March 20X2 = NCI on 31st March 20X1 + Share of NCI in Profits of 20X1- 20X2

= 35,000 + (20,000 x 20%) = ₹ 39,000

Note: Dividend as per Ind AS will be recognized only when approval by the shareholder is received.

*****

Illustration 13: Dividend proposed by subsidiary

The facts are same as in the above illustration except that the fair value of net identifiable asset is ₹ 1,60,000. Calculate NCI and Pass Journal Entry on the acquisition date. Use NCI's proportionate share method for 31st March 20X1.

Solution:

NCI on 1st April 20X1 = 20% of the fair value on identifiable assets.

= 20% x ₹ 1,60,000 = ₹ 32,000

The journal entry recorded on the acquisition date for the 80% interest acquired is as follows:

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		₹	
		Dr.	**Cr.**
Identifiable net assets	Dr.	1,60,000	
Goodwill (Balancing Figure)	Dr.	12,000	
To Bank			1,40,000
To NCI			32,000

NCI on 31st March 20X2 = NCI on 31st March 20X1 + Share of NCI in Profits of 20X1- 20X2

= 32,000 + (20,000 X 20%) = ₹ 36,000

Note: Dividend as per Ind AS will be recognized only when approval by the shareholder is received.

*****

4.2.9 Elimination of intra-group transactions

In order to present financial statements for the group in a consolidated format, the effect of transactions between group entities should be eliminated. Intra – group balances and intra – group transactions and resulting unrealized profits should be eliminated in full. Unrealized losses resulting from intra – group transactions should also be eliminated unless cost cannot be recovered.

Liabilities due to one group entity by another will be set off against the corresponding asset in the other group entity's financial statements; sales made by one group entity to another should be excluded from turnover and from purchase (or related head) or the appropriate expense heading in the consolidated statement of profit and loss.

To the extent that the buying entity has further sold the goods in question to a third party, the eliminations to sales and cost of sales are all that is required, and no adjustments to consolidated profit or loss for the period, or to net assets, are needed. However, to the extent that the goods in question are still on hand at year end, they may be carried at an amount that is in excess of cost to the group and the amount of the intra-group profit must be eliminated, and assets are reduced to cost to the group.

For transactions between group entities, unrealized profits resulting from intra-group transactions that are included in the carrying amount of assets, such as inventories and Property, Plant and Equipment, Intangible Assets and Investment Property, are eliminated in full. The requirement to eliminate such profits in full applies to the transactions of all subsidiaries that are consolidated – even those in which the group's interest is less than 100%.

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4.2.9.1 Unrealised profit on inventories

Where a group entity sells goods to another, the selling entity, as a separate legal entity, records profits made on those sales. If these goods are still held in inventory by the buying entity at the year end, however, the profit recorded by the selling entity, when viewed from the standpoint of the group as a whole, has not yet been earned, and will not be earned until the goods are eventually sold outside the group. On consolidation, the unrealized profit on closing inventories will be eliminated from the group's profit, and the closing inventories of the group will be recorded at cost to the group.

4.2.9.2 Unrealised profit on transfer of non-current assets

Similar to the treatment described above for unrealized profits in inventories, unrealized inter-company profits arising from intra-group transfers of Property, Plant and Equipment, Intangible Assets and Investment Property are also eliminated from the consolidated financial statements.

4.2.9.3 Unrealised losses

Unrealised losses resulting from intra-group transactions that are deducted in arriving at the carrying amount of assets are also eliminated **unless cost cannot be recovered**.

Illustration 14: Elimination of intra-group profit on sale of assets by a subsidiary to its parent

A parent owns 60% of a subsidiary. The subsidiary sells some inventory to the parent for ₹ 35,000 and makes a profit of ₹ 15,000 on the sale. The inventory is in the parent's balance sheet at the year end. Examine the treatment of intra-group transaction and pass the necessary journal entry.

Solution:

The parent must eliminate 100% of the unrealized profit on consolidation. The inventory will, therefore, be carried in the group's balance sheet at ₹ 20,000 (₹ 35,000 - ₹ 15,000). The consolidated income statement will show a corresponding reduction in profit of ₹ 15,000.

		₹' 000	
		Dr.	Cr.
Consolidated revenue	Dr.	35	
To Cost of sales			20
To Inventory			15

The reduction of group profit of ₹ 15,000 is allocated between the parent company and non-controlling interest in the ratio of their interests 60% and 40%.

*****

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Illustration 15: Elimination of intra-group profit on sale of assets by a parent to its subsidiary

In the above illustration, assume that it is the parent that makes the sale. The parent owns 60% of a subsidiary. The parent sells some inventory to the subsidiary for ₹ 35,000 and makes a profit of ₹ 15,000. On the sale the inventory is in the subsidiary's balance sheet at the year end. Examine the treatment of intra-group transaction and pass the necessary journal entry.

Solution:

The parent must eliminate 100% of the unrealized profit on consolidation. The inventory will, therefore, be carried in the group's balance sheet at ₹ 20,000 (₹ 35,000 - ₹ 15,000). The consolidated income statement will show a corresponding reduction in profit of ₹ 15,000.

The double entry on consolidation is as follows:

		₹' 000	
		Dr.	Cr.
Consolidated revenue	Dr.	35	
To Cost of sales			20
To Inventory			15

In this case, since it is the parent that has made the sale, the reduction in profit of ₹ 15,000 is allocated entirely to the parent company.

*****

Illustration 16: Inventories of subsidiary out of purchases from the parent

A Ltd, a parent company sold goods costing ₹ 200 lakh to its 80% subsidiary B Ltd. at ₹ 240 lakh. 50% of these goods are lying at its stock. B Ltd. has measured this inventory at cost i.e. at ₹ 120 lakh. Show the necessary adjustment in the consolidated financial statements (CFS). Assume 30% tax rate.

Solution:

A Ltd. shall reduce the inventories of ₹ 120 lakh of B Ltd., by ₹ 20 lakh in CFS. This will increase expenses and reduce consolidated profit by ₹ 20 lakh. It shall also create deferred tax asset of ₹ 6 lakh since accounting base of inventories (₹ 100 lakh) is lower than its tax base (₹ 120 lakh).

*****

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Illustration 17: Inventories of parent out of purchases from the subsidiary

Ram Ltd., a parent company purchased goods costing ₹ 100 lakh from its 80% subsidiary Shyam Ltd. at ₹ 120 lakh. 50% of these goods are lying at the godown. Ram Ltd. has measured this inventory at cost i.e. at ₹ 60 lakh. Show the necessary adjustment in the consolidated financial statements (CFS). Assume 30% tax rate.

Solution:

Ram Ltd. shall reduce the inventories of ₹ 60 lakh of Shyam Ltd., by ₹ 10 lakh in CFS. This will increase expenses and reduce consolidated profit by ₹ 10 lakh. It shall also create deferred tax asset of ₹ 3 lakh since accounting base of inventories (₹ 50 lakh) is lower than its tax base (₹ 60 lakh).

*****

Illustration 18: Property, plant and equipment (PPE) sold by parent to subsidiary

A Ltd. (which is involved in the business of selling capital equipment) a parent company sold a capital equipment costing ₹ 100 lakh to its 80% subsidiary B Ltd. at ₹ 120 lakh. The capital equipment is recorded as PPE by B Ltd. The useful life of the PPE on the date of transfer was 10 years. Show the necessary adjustment in the consolidated financial statements (CFS).

Solution:

A Ltd. shall reduce the value of PPE of ₹ 120 lakh of B Ltd., by ₹ 20 lakh in CFS. This will increase expenses and reduce consolidated profit by ₹ 20 lakh. Further, A Ltd. should also reduce the depreciation charge of B Ltd. to the extent of value of PPE reduced as above. Hence, A Ltd. should reduce the depreciation by ₹ 2 lakh (₹ 20 lakh ÷ 10 years). Further, the sales and cost of goods sold recorded by parent A Ltd. shall also be eliminated.

The double entry on consolidation is As follows:

		₹' lakh	
		Dr.	Cr.
Consolidated revenue	Dr.	120	
To Cost of sales			100
To PPE			18
To Depreciation			2

*****

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4.2.10 Allocating share in profit / loss to non-controlling interest and change in the proportion held by controlling and 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**.

4.2.10.1 Allocating share in profit / loss to non-controlling interests

An entity shall attribute the profit or loss and each component of other comprehensive income to the owners of the parent and to the non-controlling interests. The entity shall also attribute total comprehensive income to the owners of the parent and to the non-controlling interests **even if this results in the non-controlling interests having a deficit balance**.

Illustration 19: Attribution of profit / loss to non-controlling interest

A Ltd. acquired 70% equity shares of B Ltd. on 1.4.20X1 at cost of ₹ 10,00,000 when B Ltd. had an equity share capital of ₹ 10,00,000 and other equity of ₹ 80,000. In the four consecutive years, B Ltd. fared badly and suffered losses of ₹ 2,50,000, ₹ 4,00,000, ₹ 5,00,000 and ₹ 1,20,000 respectively. Thereafter in 20X5-20X6, B Ltd. experienced turnaround and registered an annual profit of ₹ 50,000. In the next two years i.e. 20X6-20X7 and 20X7-20X8, B Ltd. recorded annual profits of ₹ 1,00,000, and ₹ 1,50,000 respectively. Show the non-controlling interests and goodwill at the end of each year for the purpose of consolidation. Assume that the assets are at fair value. Ignore impairment of goodwill.

Solution:

₹

Year	Profit / (Loss)	Non-controlling interest (30%)	Additional consolidated P&L (Dr.) / Cr.	Goodwill
At the time of acquisition in 20X1		3,24,000 (W.N.)		2,44,000(W.N.)
20X1-20X2	(2,50,000)	(75,000)	(1,75,000)	2,44,000
		2,49,000		
20X2-20X3	(4,00,000)	(1,20,000)	(2,80,000)	2,44,000
		1,29,000		
20X3-20X4	(5,00,00)	(1,50,000)	(3,50,000)	2,44,000
		(21,000)		
20X4-20X5	(1,20,000)	(36,000)	(84,000)	2,44,000
		(57,000)		

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20X5-20X6	50,000	15,000	35,000	2,44,000
		(42,000)		
20X6-20X7	1,00,000	30,000	70,000	2,44,000
		(12,000)		
20X7-20X8	1,50,000	45,000	1,05,000	2,44,000
		33,000		

Working note:

Calculation of non-controlling interest:	**₹**
Share capital	10,00,000
Other equity	80,000
Total	10,80,000
NCI (30% x 10,80,000)	3,24,000

NCI is measured at NCI's proportionate share of the acquiree's identifiable net assets. (Considering the carrying amount of share capital & other equity to be fair value)

Calculation of Goodwill:	**₹**
Consideration	10,00,000
Non-controlling interest	3,24,000
Less: Net Assets	(10,80,000)
Goodwill	2,44,000

*****

Illustration 20: Non-controlling interest and goodwill

From the following data, determine in each case:

1) *Non-controlling interest at the date of acquisition (using proportionate share method) and at the date of consolidation*
2) *Goodwill or Gain on bargain purchase.*
3) *Amount of holding company's share of profit in the Consolidated Balance Sheet assuming holding company's own retained earnings to be ₹2,00,000 in each case*

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Case	Subsidiary Company	% of shares owned	Cost	Date of Acquisition 1.04.20X1		Consolidation date 31.03.20X2	
				Share Capital [A]	Retained earnings [B]	Share Capital [C]	Retained earnings [D]
Case 1	A	90%	1,40,000	1,00,000	50,000	1,00,000	70,000
Case 2	B	85%	1,04,000	1,00,000	30,000	1,00,000	20,000
Case 3	C	80%	56,000	50,000	20,000	50,000	20,000
Case 4	D	100%	1,00,000	50,000	40,000	50,000	56,000

The company has adopted an accounting policy to measure Non-controlling interest at NCI's proportionate share of the acquiree's identifiable net assets. It may be assumed that the fair value of acquiree's net identifiable assets is equal to their book values.

Solution:

(1) Non-controlling Interest = the equity in a subsidiary not attributable, directly or indirectly, to a parent. Equity is the residual interest in the assets of an entity after deducting all its liabilities i.e. in this given case Share Capital + Balance in Statement of Profit & Loss (Assuming it to be the net aggregate value of identifiable assets in accordance with Ind AS)

	% shares owned by NCI [E]	Non-controlling interest as at the date of acquisition [E] X [A + B]	Non-controlling interest as at the date of consolidation [E] X [C + D]
Case 1 [100-90]	10%	15,000	17,000
Case 2 [100-85]	15%	19,500	18,000
Case 3 [100-80]	20%	14,000	14,000
Case 4 [100-100]	Nil	Nil	Nil

(1) Calculation of Goodwill or Gain on bargain purchase

	Consideration [G]	Non-controlling interest [H]	Net Identifiable assets [A] + [B] = [I]	Goodwill [G] + [H] – [I]	Gain on bargain Purchase [I] – [G] – [H]
Case 1	1,40,000	15,000	1,50,000	5,000	-

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Case 2	1,04,000	19,500	1,30,000	-	6,500
Case 3	56,000	14,000	70,000	Nil	Nil
Case 4	1,00,000	0	90,000	10,000	-

(2) On 31.03.20X2 in each case the following amount shall be added or deducted from the balance of holding Co.'s Retained earnings.

	% Share Holding [K]	Retained earnings as on 31.03.20X1 [L]	Retained earnings as on consolidation Date [M]	Retained earnings post-acquisition [N] = [M] – [L]	Amount to be added/(deducted) from holding's Retained earnings [O] = [K] X [N]
1	90%	50,000	70,000	20,000	18,000
2	85%	30,000	20,000	(10,000)	(8,500)
3	80%	20,000	20,000	Nil	Nil
4	100%	40,000	56,000	16,000	16,000

*****

If a subsidiary has outstanding cumulative preference shares that are classified as equity and are held by non-controlling interests, the entity shall compute its share of profit or loss after adjusting for the dividends on such shares, whether or not such dividends have been declared.

Example 5

R Ltd. holds 80% stake on Y Ltd. Y Ltd. has also issued 10% cumulative preference shares worth ₹ 10,00,000 to the non-controlling interest. During the year, Y Ltd. earned profit of ₹ 5,00,000. Y Ltd. has not declared any dividend on cumulative preference share for current year. Ignore requirements of irredeemable preference shares.

In such case, the profit attributable to R Ltd. for current year would be as follows:

	₹
Total profit of Y Ltd.	5,00,000
Dividend on preference shares (10,00,000 x 10%)	(1,00,000)
Net profit	4,00,000
Profit attributable to R Ltd. (4,00,000 x 80%)	**3,20,000**

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4.2.10.2 Change in the proportion held by controlling and non-controlling interests

A parent's ownership interest may change without a loss of control, for example, in following situations:

- Parent buys shares from non-controlling interest (say, increase in stake from 60% to 70%)
- Parent sells shares to non-controlling interest (say, decrease in stake from 70% to 60%)
- Subsidiary issues new shares to non-controlling interest in a capital raising exercise resulting in dilution in stake of parent

Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are **equity transactions** (i.e. transactions with owners in their capacity as owners).

Example 6

M Ltd. holds 70% stake in N Ltd. Now if M Ltd. purchases additional 10% stake in N Ltd. or sells 10% of its existing stake (i.e. without losing control) then it is an equity transaction.

When the proportion of the equity held by non-controlling interests changes, an entity shall adjust the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. The entity shall 88ecognize **directly in equity** any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the parent.

Further, it must be noted that due to such changes in controlling and non-controlling interests, no changes are made to subsidiary's assets (including goodwill) and liabilities. It is again emphasized that no gain or loss is recognized in such transactions.

Illustration 21: Sale of 20% interest in a wholly- owned subsidiary

Entity P sells a 20% interest in a wholly owned subsidiary to outside investors for ₹ 100 lakh in cash/bank. The carrying value of the subsidiary's net assets is ₹ 300 lakh, including goodwill of ₹ 65 lakh from the subsidiary's initial acquisition.

Pass journal entries to record the transaction.

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Solution:

The accounting entry in the consolidated financial statements recorded on the disposition date for the 20% interest sold as follows:

		₹ lakh	
		Dr.	Cr.
Bank	Dr.	100	
To Non-controlling interest (20% x 300 lakh)			60
To Other Equity (Gain on sale of interest in subsidiary)			40

As per para B96 of Ind AS 110, where proportion of the equity of NCI changes, then group shall adjust controlling and non-controlling interest and any difference between amount by which NCI (60 lakh) is adjusted and fair value of consideration received (100 lakh) to be attributed to parent in other equity i.e. 40 lakh.

*****

Illustration 22: Acquisition of additional stake in a subsidiary

Entity A acquired 60% of entity B two years ago for ₹ 6,000. At that time, entity B's fair value was ₹ 10,000. It had net assets with a fair value of ₹ 6,000 (which is assumed same as book value). Goodwill of ₹ 2,400 was recorded (being ₹ 6,000 – (60% x ₹ 6,000). On 1 October 20X0, entity A acquires a further 20% interest in entity B, taking its holding to 80%. At that time the fair value of entity B is ₹ 20,000 and entity A pays ₹ 4,000 for the 20% interest. At the time of the purchase the fair value of entity B's net assets is ₹ 12,000 and the carrying amount of the non- controlling interest is ₹ 4,000.

Pass journal entries to record the transaction.

Solution:

The accounting entry recorded for the purpose of the non- controlling interest is as follows:

		₹	
		Dr.	Cr.
Non-controlling interest (4,000 ÷ 40 x 20)	Dr.	2,000	
Other Equity (Loss on acquisition of interest in subsidiary)	Dr.	2,000	
To Bank			4,000

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As per para B96 of Ind AS 110, where proportion of the equity of NCI changes, then group shall adjust controlling and non-controlling interest and any difference between amount by which NCI (₹ 2,000) is adjusted and fair value of consideration received (₹ 4,000) to be attributed to parent in other equity i.e. ₹ 2,000.

Note: This illustration mentions two types of fair values:

- Fair value of Entity B, and
- Fair value of net assets of Entity B

It should be borne in mind that the two fair values are different concepts. The former is used only for the purpose of determining the consideration to be paid for purchase of equity interests. It can be seen that for the initial stake purchase, Entity A paid 60% of the "fair value of Entity B" i.e. 60% of ₹ 10,000 = ₹ 6,000. Further, for the second purchase transaction, Entity A paid 20% of the "fair value of Entity B" i.e. 20% of ₹ 20,000 = ₹ 4,000.

The latter i.e. fair value of net assets of Entity B is used for the purpose of accounting. It can be seen that the goodwill arising on acquisition of Entity B is determined as difference between consideration paid i.e. ₹ 6,000 and Entity A's share in fair value of net assets of Entity B on date of acquisition i.e. 60% of ₹ 6,000 = ₹ 6,000 minus ₹ 3,600 = ₹ 2,400. The fair value of net assets after the date of acquisition (i.e. ₹ 12,000 in this illustration) is not relevant for accounting purposes.

*****

Illustration 23: Acquisition of additional stake in a subsidiary

A Ltd. acquired 10% additional shares of its 70% subsidiary. The following relevant information is available in respect of the change in non-controlling interest on the basis of Balance Sheet finalized as at 1.4.20X0:

	₹ in thousand
Separate financial statements	As at 31.3.20X0
Investment in subsidiary (70% interest) – at cost	14,000
Purchase price for additional 10% interest	2,600
Consolidated financial statements	
Non-controlling interests (30%)	6,600
Consolidated profit & loss account balance	2,000
Goodwill	600

The reporting date of the subsidiary and the parent is 31 March 20X0. Prepare note showing adjustment for change of non-controlling interest. Should goodwill be adjusted for the change?

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Solution:

The following accounting entry is passed:

		₹ '000	
		Dr.	Cr.
Non-controlling interest (6,600 ÷ 30 x 10)	Dr.	2,200	
Other Equity (Loss on acquisition of interest in subsidiary)	Dr.	400	
To Bank			2,600

As per para B96 of Ind AS 110, where proportion of the equity of NCI changes, then group shall adjust controlling and non-controlling interest and any difference between amount by which NCI (₹ 22,00,000) is adjusted and fair value of consideration received (₹ 26,00,000) to be attributed to parent in other equity i.e. ₹ 4,00,000. Consolidated goodwill is not adjusted.

*****

Illustration 24: Acquisition of additional stake in a subsidiary

A Ltd. acquired 70% shares of B Ltd. on 1.4.20X0 when the fair value of net assets of B Ltd. was ₹ 200 lakh. During 20X0-20X1, B Ltd. made profit of ₹ 100 lakh. Individual and consolidated balance sheets as at 31.3.20X1 are as follows: ***₹ lakh***

	A	B	Group
Assets			
Goodwill			10
PPE	627	200	827
Financial assets:			
Investments	150		
Cash/Bank	200	30	230
Other current assets	23	70	93
	1,000	**300**	**1160**
Equity and liability			
Share capital	200	100	200
Other equity	800	200	870
Non-controlling interest			90
	1,000	**300**	**1160**

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A Ltd. acquired another 10% stake in B Ltd. on 1.4.20X1 at ₹ 32 lakh. The proportionate carrying amount of the non-controlling interest is ₹ 30 lakh. Show the individual and consolidated balance sheet of the group immediately after the change in non-controlling interest.

Solution:

₹ lakh

	A	B	Workings	Group
Assets				
Goodwill				10
PPE	627	200		827
Financial assets:				
Investments (150+32)	182			
Cash/Bank* (200-32)	168	30	(200+30)-32)	198
Other current assets	23	70		93
	1,000	**300**		**1,128**
Equity and liability				
Share capital	200	100		200
Other equity	800	200	870-2	868
Non-controlling interest			90-30	60
	1,000	**300**		**1,128**

*Cash/Bank has been adjusted through Individual Balance Sheet.

Journal Entry

		₹ lakh	
		Dr.	Cr.
Non-controlling interest (90 ÷ 30 x 10)	Dr.	30	
Other Equity (Loss on acquisition of interest in subsidiary)	Dr.	2	
To Bank			32

*****

Illustration 25: Reduction in interest in subsidiary

Amla Ltd. purchased a 100% subsidiary for ₹ 10,00,000 at the end of 20X1 when the fair value of the subsidiary Lal Ltd.'s net asset was ₹ 8,00, 000.

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The parent sold 40% of its investment in the subsidiary in March 20X4 to outside investors for ₹ 9,00,000. The parent still maintains a 60% controlling interest in the subsidiary. The carrying value of the subsidiary's net assets is ₹ 18,00,000 (including net assets of ₹ 16,00,000 & goodwill of ₹ 2,00,000).

Calculate gain / loss on sale of interest in subsidiary as at 31st March 20X4.

Solution:

As per Ind AS 110, a change in ownership that does not result in a loss of control is equity transaction. The identifiable net assets (including goodwill) remain unchanged and any difference between the amount by which the non-controlling interest is recorded (including the non-controlling interest portion of goodwill) and a fair value of the consideration received is recognized directly in equity and attributed to the controlling interest. For disposals that do not result in the loss of control, the change in the non-controlling interest is recorded at its proportionate interest of the carrying value of the subsidiary.

Gain on the sale of the investment of ₹ 5,00,000 in parent's separate financial statements calculated as follows:

	₹' 000
Sale proceeds	900
Less: Cost of investment in subsidiary (10,00,000 x 40%)	(400)
Gain on sale in the parent's separate financial statements	500

As discussed above, the group's consolidated income statement for 31st March 20X4 would show no gain on the sale of the interest in the subsidiary. Instead, the difference between the fair value of the consideration received and the amount by which the non-controlling interest is recorded is recognized directly in equity.

	₹' 000
Sale proceeds	900
Less: Recognition of non-controlling interest (18,00,000 x 40%)	(720)
Credit to other equity	180

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The entry recognized in the consolidated accounts under Ind AS 110 is:

		₹' 000	
		Dr.	Cr.
Bank	Dr.	900	
To Non-controlling interest			720
To Other Equity (Gain on sale of interest in subsidiary)			180

The difference between the gain in the parent's income statement and the increase reported in the group's consolidated equity is ₹ 3,20,000. This difference represents the share of post-acquisition profits retained in the subsidiary ₹ 3,20,000 [(that is, 18,00,000 – 10,00,000) x 40%] that have been reported in the group's income statement up to the date of sale.

*****

Illustration 26: Reduction in interest in subsidiary

Entity A sells 30% interest in its wholly-owned subsidiary to outside investors in an arm 's length transaction for ₹ 500 crore in cash and retains a 70% controlling interest in the subsidiary. At the time of the sale, the carrying value of the subsidiary's net assets in the consolidated financial statements of Entity A is ₹ 1,300 crore, additionally, there is a goodwill of ₹ 200 crore that arose on the subsidiary's acquisition. Entity A initially accounted for NCI representing present ownership interests in the subsidiary at fair value and it recognises subsequent changes in NCI in the subsidiary at NCI's proportionate share in aggregate of net identifiable assets and associated goodwill. How should Entity A account for the transaction?

Solution:

As per paragraph 23 of Ind AS 110, changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions (i.e. transactions with owners in their capacity as owners). Thus, changes in ownership interest that do not result in loss of control do not impact goodwill associated with the subsidiary or the statement of profit and loss.

Paragraph B96 of Ind AS 110 states that when the proportion of the equity held by non-controlling interests changes, an entity shall adjust the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. The entity shall recognise directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the parent.

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Thus, at the time of sale of 30% of its equity interest, consolidated financial statements include an amount of ₹ 1,500 crore in respect of the subsidiary. Accordingly, in the present case, the accounting entry in the consolidated financial statements on the date of sale of the 30% interest would be as follows:

		₹ in crore	
		Dr.	Cr.
Bank	Dr.	500	
To Non-controlling interest (1,500 x 30%)			450
To Other Equity (Gain on sale of interest in subsidiary)			50

*****

Illustration 27: Treatment of goodwill and non-controlling interest where a parent holds an indirect interest in a subsidiary

A parent company (entity A) has an 80% owned subsidiary (entity B). Entity B makes an acquisition for cash of a third company (entity C), which it then wholly owns. Goodwill of ₹ 1,00,000 arises on the acquisition of entity C.

How should that goodwill be reflected in consolidated financial statement of entity A? Should it be reflected as

a) 100% of the goodwill with 20% then being allocated to the non- controlling interest, or

b) 80% of the goodwill that arises?

Solution:

Assuming that entity B prepares consolidated financial statements, 100% of the goodwill would be recognized on the acquisition of entity C in those financial statements. Entity A should reflect 100% of goodwill and allocate 20% to the non- controlling interest in its consolidated financial statements. This is because the non-controlling interest is a party to the transaction and goodwill forms part of the net assetssubgroupub group (in this case, the sub group being the group headed by entity B).

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4.2.11 Preparation of consolidated financial statements after applying above principles

In this section we will discuss how the full set of consolidated financial statements is prepared after applying the consolidation principles discussed above.

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4.2.11.1 Preparation of consolidated balance sheet

- Assets and outside liabilities of the subsidiary company are combined with those of the parent company. Appropriate intra group elimination adjustments as explained in section 4.2.9 above are recognised.
- The equity share capital of the subsidiary and investment of parent company are eliminated and goodwill / capital reserve and non-controlling interest are recognised.
- The parent's share in post-acquisition profits of the subsidiary company (added to appropriate concerned account of the parent company) are accounted in consolidated balance sheet.

4.2.11.2 Preparation of consolidated profit & loss

- The items of income and expenses are added on line by line basis.
- Intra-group transactions are eliminated in full (e.g. sales made by parent to a subsidiary which is recorded as purchase by subsidiary are eliminated from the consolidated profit & loss by reducing both sales of parent and purchase of subsidiary) – refer section 4.2.9 above.

4.2.11.3 Preparation of consolidated cash flows

- Items of cash flow from various activities are to be added on line by line basis and from the consolidated items, inter-company transactions should be eliminated.

4.2.12 Chain-holding under consolidation

4.2.12.1 Meaning of chain control

A parent company can establish control over subsidiary directly or indirectly. Chain-holding refers to situations wherein a parent is controlling a subsidiary indirectly, i.e., having a controlling interest over a company indirectly. This may happen in number of ways, for example, parent company (P Ltd.) holding controlling interest in a subsidiary (S1 Ltd.), which in turn is holding a controlling interest in another company (S2 Ltd.). In this case, P Ltd. is having an indirect control over S2 Ltd. through its direct subsidiary S1 Ltd.

4.2.12.2 Consolidation procedures in case of chain-holding

Holding in subsidiary may be of various structures like:

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Situation 1: Sub-subsidiaries

Parent P → 80% → Subsidiary 1 → 60% → Sub-subsidiary (S2)

In the above case, P holds a controlling interest in S1 which in turn holds a controlling interest in S2.

Analysis:

1. P owns 80% of 60% = 48% of S2
2. The non-controlling interest (NCI) in S1 owns 20% of 60% = 12% of S2
3. The non-controlling interest (NCI) in S2 itself owns the remaining 40% of the S2 equity.

S2 is nevertheless a sub-subsidiary of P, because it is a subsidiary of S1 which in turn is a subsidiary of P. The chain of control thus makes S2 sub-subsidiary of P which owns only 48% of its equity.

Date of effective control:

The date the sub-subsidiary (S2) comes under the control of the holding company is either:

1. The date P acquired S1 if S1 already holds shares in S2, or
2. If S1 acquires shares in S2 later, i.e. after the acquisition by P in S1, then such date of acquisition by S1.

Points to remember:

The dates of acquisition and the order in which the group is built up should be considered while identifying as to which balances to select as the pre-acquisition reserves of the sub-subsidiary.

Care must be taken when consolidating sub-subsidiaries, because (usually) either:

1. The parent company acquired the subsidiary before the subsidiary bought the sub-subsidiary
2. The parent holding company acquired the subsidiary after the subsidiary bought the sub-subsidiary
3. Depending on whether (1) or (2) is the case, the retained earnings of the subsidiary at acquisition will be different.

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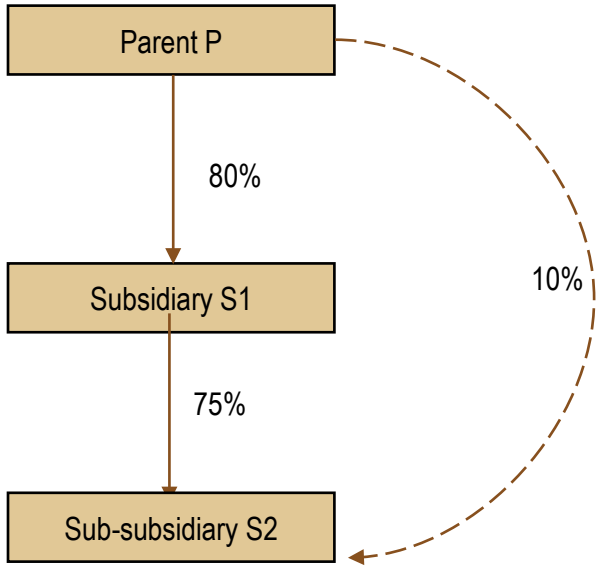
Situation II: Direct holdings in sub-subsidiaries:



In this case, S2 is a sub-subsidiary of P with additional shares held directly by P.

In the above case, there is:

1.	**Direct** non-controlling share (NCI) in S1 of	20%	
2.	**Direct** non-controlling share (NCI) in S2 of (25-10)	15%	
3.	**Indirect** non-controlling share (NCI) in S2 of 20% x 75%	15%	30%

Analysis:

The effective interest in SS is:

Group (80% x 75%)	60% interest
Direct holding	10%
	70%
Thus NCI	30%
	100%

Note: Once we have ascertained the structure and non-controlling interest, we can proceed as we do for case A.

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Illustration 29: Chain holding

Prepare the consolidated Balance Sheet as at 31st March, 20X2 of a group of companies comprising P Limited, S Limited and SS Limited. Their balance sheets on that date are given below: *₹ in lakhs*

	P Ltd.	S Ltd.	SS Ltd.
Assets			
Non-Current Assets			
Property, Plant and Equipment	320	360	300
Investment:			
32 lakh shares in S Ltd.	340		
24 lakh shares in SS Ltd.		280	
Current Assets			
Inventories	220	70	50
Financial Assets			
Trade Receivables	260	100	220
Bills Receivables	72	-	30
Cash in hand and at Bank	228	40	40
	1440	**850**	**640**
Equity and Liabilities			
Shareholder's Equity			
Share Capital (₹ 10 per share)	600	400	320
Other Equity			
Reserves	180	100	80
Retained earnings	160	50	60
Current Liabilities			
Financial Liabilities			
Trade Payables	470	230	180
Bills Payable			
P Ltd.		70	
SS Ltd.	30	-	-
	1440	**850**	**640**

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The following additional information is available:

(i) P Ltd. holds 80% shares in S Ltd. and S Ltd. holds 75% shares in SS Ltd. Their holdings were acquired on 30th September, 20X1.

(ii) The business activities of all the companies are not seasonal in nature and therefore, it can be assumed that profits are earned evenly throughout the year.

(iii) On 1st April, 20X1 the following balances stood in the books of S Ltd. and SS Ltd.

₹ in Lakhs

	S Limited	SS Limited
Reserves	*80*	*60*
Retained earnings	*20*	*30*

(iv) ₹ 10 lakhs included in the inventory figure of S Ltd, is inventory which has been purchased from SS Ltd at cost plus 25%.

(v) The parent company has adopted an accounting policy to measure non-controlling interest at fair value (quoted market price) applying Ind AS 103. Assume market prices of S Ltd and SS Ltd are the same as respective face values.

Solution:

Consolidated Balance Sheet of the Group as at 31st March, 20X2

Particulars	Note No.	₹ in lakh
ASSETS		
Non-current assets		
Property, plant and equipment	1	980
Current assets		
(a) Inventory	2	338
(b) Financial assets		
Trade receivable	3	580
Bills receivable	4	2
Cash and cash equivalent	5	308
Total assets		**2,208**

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EQUITY & LIABILITIES		
Equity attributable to owners of parent		
Share Capital		600
Other Equity		
Reserve (W.N.5)		194
Retained Earnings (W.N.5)		179.8
Capital Reserve (W.N.3)		188
Non-controlling interests (W.N.4)		166.2
Total equity		**1,328**
LIABILITIES		
Non-current liabilities		Nil
Current liabilities		
(a) Financial Liabilities		
(i) Trade payables	6	880
Total liabilities		880
Total equity and liabilities		**2,208**

Notes to Accounts **(₹ in lakh)**

1.	**Property Plant & Equipment**		
	P Ltd.	320	
	S Ltd.	360	
	SS Ltd.	300	980
2.	**Inventories**		
	P Ltd.	220	
	S Ltd. (70-2)	68	
	SS Ltd.	50	338
3.	**Trade Receivable**		
	P Ltd.	260	
	S Ltd.	100	
	SS Ltd.	220	580
4.	**Bills Receivable**		
	P Ltd. (72-70)	2	
	SS Ltd. (30-30)	-	2

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5.	**Cash & Cash equivalents**		
	P Ltd.	228	
	S Ltd.	40	
	SS Ltd.	40	308
6.	**Trade Payables**		
	P Ltd.	470	
	S Ltd.	230	
	SS Ltd.	180	880

Working Notes:

1. Analysis of Reserves and Surplus **(₹ in lakh)**

		S Ltd.		SS Ltd.
Reserves as on 31.3.20X1		80		60
Increase during the year 20X1-20X2	20		20	
Increase for the half year till 30.9.20X1		10		10
Balance as on 30.9.20X1 (A)		**90**		**70**
Total balance as on 31.3.20X2		100		80
Post-acquisition balance		**10**		**10**
Retained Earnings as on 31.3.20X1		20		30
Increase during the year 20X1-20X2	30		30	
Increase for the half year till 30.9.20X1		15		15
Balance as on 30.9.20X1 (B)		**35**		**45**
Total balance as on 31.3.20X2		50		60
Post-acquisition balance		15		15
Less: Unrealised Gain on inventories (10 ÷ 125 x 25)		-		(2)
Post-acquisition balance for CFS		**15**		**13**
Total balance on the acquisition date ie. 30.9.20X1 (A+B)		**125**		**115**

2. Calculation of Effective Interest of P Ltd. in SS Ltd.

Acquisition by P Ltd. In S Ltd. = 80%

Acquisition by S Ltd. In SS Ltd. = 75%

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Acquisition by Group in SS Ltd. (80% x 75%) = 60%

Non-controlling Interest = 40%

3. Calculation of Goodwill / Capital Reserve on the acquisition

	S Ltd.	SS Ltd.
Investment or consideration	340	(280 x 80%) 224
Add: NCI at Fair value		
(400 x 20%)	80	
(320 x 40%)	-	128
	420	352
Less: Identifiable net assets (Share Capital + Increase in the Reserves and Surplus till acquisition date)	(400+125) (525)	(320+115) (435)
Capital Reserve	105	83
Total Capital Reserve (105 + 83)	**188**	

4. Calculation of Non-controlling Interest

	S Ltd.	SS Ltd.
At Fair Value (See Note 3)	80	128
Add: Post Acquisition Reserves (See Note 1)	(10 x 20%) 2	(10 x 40%) 4
Add: Post Acquisition Retained Earnings (See Note 1)	(15 x 20%) 3	(13 x 40%) 5.2
Less: NCI share of investment in SS Ltd.	(280 x 20%) (56)*	-
	29	137.2
Total (29 + 137.2)	166.2	

***Note:** The non-controlling interest in S Ltd. will take its proportion in SS Ltd. So, they have to bear their proportion in the investment by S Ltd. (in SS Ltd.) also.

5. Calculation of Consolidated Other Equity

	Reserves	Retained Earnings
P Ltd.	180	160
Add: Share in S Ltd.	(10 x 80%) 8	(15 x 80%) 12
Add: Share in SS Ltd.	(10 x 60%) 6	(13 x 60%) 7.8
	194	**179.8**

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Note: It is assumed date the sale of goods by SS Ltd. is done after acquisition of shares by S Ltd. Alternatively, it may be assumed that the sale has either been done before acquisition of shares by S Ltd. in SS Ltd. or sale has been throughout the year. Accordingly, the treatment for unrealized gain may vary.

*****

4.3 LOSS OF CONTROL

A parent can lose control over a subsidiary in a number of ways. These include:

- Loss of control due to outright sale – where the entire stake is sold off,
- Loss of control due to partial sale – where the parent retains interest as an associate, jointly controlled entity or a financial asset,
- Deemed loss of control where no consideration is received but the parent's interest is diluted in some other manner such as:
  - voting rights issued to a new investor,
  - control on relevant activities,
  - consolidation of voting rights of other shareholders;
  - an investor acquiring substantial stake from the stock exchange.

In this section we will discuss following two things:

- Accounting treatment of loss of control of a subsidiary
- Loss of control of a subsidiary in two or more arrangements (transactions)

4.3.1 Accounting treatment on loss of control of a subsidiary

If a parent loses control of a subsidiary, it shall follow the accounting treatment mentioned below:

If a parent loses control of a subsidiary, it shall			
Derecognise:	**Recognise:**	**Reclassify:**	**Recognises gain / loss:**
• the assets (including any goodwill) and liabilities of the subsidiary	• the fair value of the consideration received • if loss of control involves a distribution of	• to profit or loss, or transfer directly to retained earnings if	• recognise any resulting difference as a gain or loss in profit or loss attributable to the parent

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• the carrying amount of any non-controlling interests in the former subsidiary	shares of the subsidiary to owners, then that distribution; and • any investment retained in the former subsidiary at its fair value at the date when control is lost (refer **note 1** below)	required by other Ind ASs, the amounts recognised in other comprehensiv e income in relation to the subsidiary (refer **note 2** below)	

Note 1: The fair value at which the retained interest is recognized shall be regarded as the fair value on initial recognition of a financial asset in accordance with Ind AS 109 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

Example 7

A Ltd. was holding 60% stake in B Ltd. Now A Ltd. has sold 50% stake to a third party and balance 10% stake is retained. The fair value of that 10% stake on the date of loss of control is ₹ 1,00,000. So, A Ltd. will record the 10% stake at ₹ 1,00,000 on the date of loss of control. This fair value will be treated as fair value on initial recognition as per Ind AS 109. In case, after the loss of control, A Ltd. still has significant influence over B Ltd. (e.g. through board representation) then this fair value of ₹ 1,00,000 will be treated as cost on initial recognition of investment in associate B Ltd.

Note 2: If a parent loses control of a subsidiary, the parent shall account for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the parent had directly disposed of the related assets or liabilities.

Example 8

X Ltd. has previously recognized in other comprehensive income in relation to a subsidiary Y Ltd. i) cumulative exchange differences relating to a foreign operation and ii) revaluation surplus. Now X Ltd. has sold its entire holding in Y Ltd. and hence has lost control over it. Hence, on loss of control, X Ltd. should reclassify the cumulative exchange differences relating to the foreign operation (that would have been reclassified to profit or loss if the parent had directly disposed that foreign operation) to profit or loss as reclassification adjustment. The revaluation surplus (that would have been transferred directly to retained earnings if the parent had directly disposed the asset) shall be transferred directly to retained earnings.

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Illustration 30: Subsidiary issues shares to a third party and parent loses control

In March 20X1 a group had a 60% interest in subsidiary with share capital of 50,000 ordinary shares. The carrying amount of goodwill is ₹ 20,000 at March 20X1 calculated using the partial goodwill method. On 31 March 20X1, an option held by the minority shareholders exercised the option to subscribe for a further 25,000 ordinary shares in the subsidiary at ₹ 12 per share, raising ₹ 3,00,000. The net assets of the subsidiary in the consolidated balance sheet prior to the option's exercise were ₹ 4,50,000, excluding goodwill.

Calculate gain or loss on loss of interest in subsidiary due to option exercised by minority shareholder.

Solution:

Shareholdings

	Before		After	
	No	**%**	**No**	**%**
Group	30,000	60	30,000	40
Other party	20,000	40	45,000	60
	50,000	100	75,000	100
Net assets	**₹' 000**	**%**	**₹' 000**	**%**
Group's share	270	60	300	40
Other party's share	180	40	450	60
	450	100	750	100

Calculation of group gain on deemed disposal	**₹' 000**
Fair value of 40% interest retained (₹ 12 x 30,000)**	360
Less: Net assets derecognized	(450)
Non-controlling interest derecognized	180
Goodwill	(20)
Gain on deemed disposal	70

** **Note**: For simplicity, it has been assumed the fair value per share is equal to the subscription price.

As control of the subsidiary is lost, the retained interest is recognized at its fair value at the date control is lost. The resulting remeasurement gain is recognized in profit and loss.

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Illustration 31: Calculation of gain on outright sale of subsidiary

A parent purchased 80% interest in a subsidiary for ₹1,60,000 on 1 April 20X1 when the fair value of the subsidiary's net assets was ₹1,75,000. Goodwill of ₹20,000 arose on consolidation under the partial goodwill method. An impairment of goodwill of ₹8,000 was charged in the consolidated financial statements for year ended 31 March 20X3. No other impairment charges have been recorded. The parent sold its investment in the subsidiary on 31 March 20X4 for ₹2,00,000. The book value of the subsidiary's net assets in the consolidated financial statements on the date of the sale was ₹2,25,000 (not including goodwill of ₹12,000). When the subsidiary met the criteria to be classified as held for sale under Ind AS 105, no write off was required because the expected fair value less cost to sell (of 100% of the subsidiary) was greater than the carrying value.

The parent carried the investment in the subsidiary in its separate financial statements at cost, as permitted by Ind AS 27.

Calculate gain or loss on disposal of subsidiary in parent's separate and consolidated financial statements as at 31st March 20X4.

Solution:

The parent's separate statement of profit and loss for 20X3-20X4 would show a gain on the sale of investment of ₹ 40,000 calculated as follow:

	₹' 000
Sales proceeds	200
Less: Cost of investment in subsidiary	(160)
Gain on sale in parent's account	40

However, the group's statement of profit & loss for 20X3-20X4 would show a gain on the sale of subsidiary of ₹ 8,000 calculated as follows:

		₹' 000
Sales proceeds		200
Less: Share of net assets at date of disposal (₹ 2,25,000 X 80%)	(180)	
Goodwill on consolidation at date of sale (W.N.)	(12)	(192)
Gain on sale in group's account		8

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Working note

The goodwill on consolidation (assuming partial goodwill method) is calculated as follows:

		₹' 000
Fair value of consideration at the date of acquisition		160
Non-controlling interest measured at proportionate share of the acquiree's identifiable net assets (1,75,000 X 20%)	35	
Less: Fair value of net assets of subsidiary at date of acquisition	(175)	(140)
Goodwill arising on consolidation		20
Impairment at 31 March 20X3		(8)
Goodwill at 31 March 20X4		12

*****

Illustration 32: Partial disposal when subsidiary becomes an associate

AT Ltd. purchased a 100% subsidiary for ₹ 50,00,000 on 31st March 20X1 when the fair value of the net assets of BT Ltd. was ₹ 40,00,000. Therefore, goodwill is ₹ 10,00,000. AT Ltd. sold 60% of its investment in BT Ltd. on 31st March 20X3 for ₹ 67,50,000, leaving the AT Ltd. with 40% and significant influence. At the date of disposal, the carrying value of net assets of BT Ltd. excluding goodwill is ₹ 80,00,000. Assume the fair value of the investment in associate BT Ltd. retained is proportionate to the fair value of the 60% sold, that is ₹ 45,00 000.

Calculate gain or loss on sale of proportion of BT Ltd. in AT Ltd.'s separate and consolidated financial statements as at 31st March 20X3. Provide Journal Entries.

Solution:

AT Ltd.'s standalone statement for profit or loss of 20X2-20X3 would show a gain on the sale of investment of a ₹ 37,50,000 calculated as follows:

	₹' lakh
Sales proceeds	67.5
Less: Cost of investment in subsidiary (₹ 50,00,000 * 60%)	(30.0)
Gain on sale in parent's account	37.5

In the consolidated financial statements, the group will calculate the gain or loss on disposal differently. The carrying amount of all of the assets including goodwill is derecognized when control is lost. This is compared to the proceeds received and the fair value of the investment retained.

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The gain on the disposal will, therefore, be calculated as follows:

	₹' lakh
Sales proceeds	67.5
Fair value of 40%interest retained	45.0
	112.5
Less: Net assets disposed, including goodwill (80,00,000+ 10,00,000)	(90.0)
Gain on sale in the group's financial statements	22.5

The gain on loss of control would be recorded in consolidated statement of profit and loss. The gain or loss includes the gain of ₹ 13,50,000 [₹ 67,50,000 – (₹ 90,00,000 x 60%)] on the portion sold. However, it also includes a gain on remeasurement of the 40% retained interest of ₹ 9,00,000 (₹ 36,00,000* to ₹ 45,00,000). The entity will need to disclose the portion of the gain that is attributable to remeasuring any remaining interest to fair value, that is, ₹ 9,00,000.

* 90,00,000 x 40% = 36,00,000

*****

Illustration 33: Partial disposal when 10% investment in former subsidiary is retained

The facts of this illustration are same per the above Illustration, except the group AT Ltd. Disposes of a 90% interest for ₹85,50,000 leaving the AT Ltd. with a 10% investment. The fair value of the remaining interest is ₹9,50,000 (assumed for simplicity to be pro rata to the fair value of the 90% sold)

Calculate gain or loss on sale of proportion of BT Ltd. in AT Ltd.'s separate and consolidated financial statements as at 31st March 20X3.

Solution:

The parent's AT Ltd. income statement in its separate financial statements for 20X2-20X3 would show a gain on the sale of the investment of ₹ 40,50,000 calculated as follows:

	₹' lakh
Sales proceeds	85.5
Less: Cost of investment in subsidiary (₹ 50,00,000 * 90%)	(45.0)
Gain on sale in parent's account	40.5

In the consolidated financial statements, all of the assets, including goodwill are derecognized when control is lost. This is compared to the proceeds received and the fair value of the investment retained.

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	₹' lakh
Sales proceeds	85.5
Fair value of 10%interest retained	9.5
	95.0
Less: Net assets disposed, including goodwill (80,00,000 + 10,00,000)	(90.0)
Gain on sale in the group's financial statements	5.0

The gain on loss of control would be recorded in profit or loss. The gain or loss includes the gain of ₹ 4,50,000 related to the 90% portion sold [₹ 85,50,000 – (₹ 90,00,000 x 90%)] as well as ₹ 50,000 related to the remeasurement of fair value of 10% retained interest (₹ 9,00,000 to ₹ 9,50,000).

*****

4.3.2 Loss of control of a subsidiary in two or more arrangements (transactions)

A parent might lose control of a subsidiary in two or more arrangements (transactions). However, sometimes circumstances indicate that the multiple arrangements should be **accounted for as a single transaction**.

The above requirement is relevant because Ind AS 110 requires an entity to record gain / loss on disposal of investment in subsidiary in profit or loss only when the control is lost. This can give opportunity to an entity to arrange the disposal in such a way that it can reduce the amount to be recognized in profit or loss.

Example 9

MN Ltd. was holding 80% stake in UV Ltd. Now, MN Ltd. wants to dispose its entire holding in UV Ltd. It can do it in following ways:

- Option 1: Sale entire 80% stake in single transaction. In this case, the entire gain / loss on sale of 80% stake would be recognised in profit or loss.
- Option 2: Sale 25% stake in one transaction and sale the remaining 55% stake in another transaction. In this case, the gain / loss on sale of 25% stake would be recognised directly in equity since it will be sale of stake without loss of control. When the remaining 55% stake is sold then the gain / loss pertaining to that stake will be recognised in profit or loss.

In determining whether to account for the arrangements as a single transaction, a parent shall consider all the terms and conditions of the arrangements and their economic effects. One or more

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of the following indicate that the parent should account for the multiple arrangements as a single transaction:

- They are entered into at the **same time or in contemplation of each other**.
- They form a single transaction designed to **achieve an overall commercial effect**
- The occurrence of one arrangement is **dependent** on the occurrence of at least one other arrangement.
- One arrangement considered on its own is **not economically justified, unless it is considered together** with other arrangements. (e.g. when a disposal of shares is priced below market and is compensated for by a subsequent disposal priced above market)

Illustration 34: Loss control of a subsidiary in two transactions

MN Ltd. was holding 80% stake in UV Ltd. Now, MN Ltd. has disposed of the entire stake in UV Ltd. in two different transactions as follows:

- *Transaction 1: Sale of 25% stake for a cash consideration of ₹ 2,50,000*
- *Transaction 2: Sale of 55% stake for a cash consideration of ₹ 5,50,000*

Both the transactions have happened within a period of one month. In accordance with the guidance given in Ind AS 110, both the transactions have to be accounted as a single transaction.

The net assets of UV Ltd. and non-controlling interest on the date of both the transactions was ₹ 9,00,000 and ₹ 1,80,000 respectively (assuming there were no earnings between the period of two transactions).

How MN Ltd. should account the transaction?

Solution:

MN Ltd. will account for the transaction as follows:

		₹
Recognise:		
Fair value of consideration (2,50,000 + 5,50,000)		8,00,000
Derecognise:		
Net assets of UV Ltd.	(9,00,000)	

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Non-controlling interest	1,80,000	(7,20,000)
Gain to be recorded in profit or loss		**80,000**

If MN Ltd. loses control over UV Ltd. on the date of transaction 1, then the above gain is recorded on the date of transaction 1 and MN Ltd. will stop consolidating UV Ltd. from that date. The consideration of ₹ 5,50,000 receivable in transaction 2 will be shown as consideration receivable.

If MN Ltd. loses control over UV Ltd. on the date of transaction 2, then the above gain is recorded on the date of transaction 2 and MN Ltd. will stop consolidating UV Ltd. from that date. The consideration of ₹ 2,50,000 received in transaction 1 will be shown as advance consideration received.

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4.4 ACCOUNTING FOR A CHANGE IN INVESTMENT ENTITY STATUS

A parent that either ceases to be an investment entity or becomes an investment entity shall account for the change in its status **prospectively** from the date at which the change in status occurred.

4.4.1 Accounting when an entity ceases to be an investment entity

When an entity ceases to be an investment entity, it shall apply Ind AS 103 to any subsidiary that was previously measured at fair value through profit or loss. The date of the change of status shall be the deemed acquisition date. The fair value of the subsidiary at the deemed acquisition date shall represent the transferred deemed consideration when measuring any goodwill or gain from a bargain purchase that arises from the deemed acquisition. All subsidiaries shall be consolidated in accordance with the consolidation principles discussed above in this unit.

Illustration 35: An entity ceases to be an investment entity

A Limited ceased to be in investment entity from 1st April 20X1 on which date it was holding 80% of B Limited. The carrying value of such investment in B Limited (which was measured at fair value through profit or loss) was ₹ 4,00,000. The fair value of non-controlling interest on the date of change in status was ₹ 1,00,000. The value of subsidiary's identifiable net assets as per Ind AS 103 was ₹ 4,50,000 on the date of change in status. Determine the value of goodwill and pass the journal entry on the date of change in status of investment entity. (Assume that non-controlling interest is measured at fair value method)

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Solution:

Goodwill calculation:	₹
Deemed consideration (i.e. fair value of subsidiary on the date of change in status)	4,00,000
Fair value of non-controlling interest	1,00,000
	5,00,000
Value of subsidiary's identifiable net assets as per Ind AS 103	(4,50,000)
Goodwill	**50,000**

Journal Entry		₹	
		Dr.	Cr.
Net identifiable assets	Dr.	4,50,000	
Goodwill	Dr.	50,000	
To Investment in B Limited (on date of change in status)			4,00,000
To Non-controlling interest			1,00,000

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4.4.2 Accounting when an entity becomes an investment entity

When an entity becomes an investment entity, it shall cease to consolidate its subsidiaries at the date of the change in status (except for any subsidiary that itself is not an investment entity but provide services related to the investment entity's investment activities. Such subsidiaries shall be continued to be consolidated). The investment entity shall apply the requirements of loss of control explained earlier in this unit to those subsidiaries that it ceases to consolidate as if the investment entity had lost control of those subsidiaries at that date.

Illustration 36: An entity becomes an investment entity

CD Ltd. purchased a 100% subsidiary for ₹ 20,00,000 on 31st March 20X1 when the fair value of the net assets of KL Ltd. was ₹ 16,00,000. Therefore, goodwill was ₹ 4,00,000. CD Ltd. becomes an investment entity on 31st March 20X3 when the carrying value of its investment in KL Ltd. (measured at fair value through profit or loss) was ₹ 25,00,000. At the date of change in status, the carrying value of net assets of KL Ltd. excluding goodwill was ₹ 19,00,000.

Calculate gain or loss with respect to investment in KL Ltd. on the date of change in investment entity status of CD Ltd.

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Solution:

The gain on the disposal will be calculated as follows:

	₹
Fair value of retained interest (100%)	25,00,000
Less: Net assets disposed, including goodwill (19,00,000 + 4,00,000)	(23,00,000)
Gain on the date of change in investment entity status of CD Ltd.	2,00,000

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4.5 SIGNIFICANT DIFFERENCES BETWEEN IND AS 110 AND AS 21

S. No.	Topic	Ind AS 110	AS 21
1.	Preparation of Consolidated Financial Statements	Ind AS 110 makes the preparation of consolidated financial statements mandatory for a parent (subject to limited exceptions).	AS 21 does not mandate the preparation of consolidated financial statements by a parent. However, if a parent presents consolidated financial statements, it is required to apply AS 21 in preparing and presenting such financial statements.
2.	Control	The definition of control in Ind AS 110 is principle based - an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.	As per AS 21, control is the ownership of more than one-half of the voting power of an enterprise or control of the composition of the board of directors or other similar governing body of another enterprise so as to obtain economic benefits from its activities. Thus, AS 21 lays down quantitative parameters for determining whether an entity controls another entity.

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3.		As per the definition of 'control' under Ind AS 110, control of an entity can be with one entity only.	There can occasionally be situations where application of the definition of 'control' as per AS 21 results in there being two parents of an entity. In such a case, both the parents are required to consolidate the entity in their respective consolidated financial statements.
4.	Exclusion of a subsidiary from consolidation	Ind AS 110 does not permit exclusion of a subsidiary from consolidation on either of these grounds.	As per AS 21, a subsidiary is excluded from consolidation when control is intended to be temporary or when it operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent.
5.	Difference between the date of the subsidiary's financial statements and that of the consolidated financial statements	Under Ind AS 110 difference between the date of the subsidiary's financial statements and that of the consolidated financial statements cannot exceed three months.	As per AS 21, difference between the date of the subsidiary's financial statements and that of the consolidated financial statements cannot exceed six months.
6.	Changes in a parent's ownership interest in a subsidiary not resulting in losing control	Ind AS 110 specifically lays down accounting requirements applicable to changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary.	In AS 21, no such guidance has been given.
7.	Uniform accounting policies	Ind AS 110, require the use of uniform accounting policies. No such exemption is given in Ind AS 110.	AS 21 allows the use of non-uniform accounting policies if it is not practicable to use uniform accounting policies disclosure is, however, required of, that fact together with the proportions of

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			the items in the consolidated financial statements to which the different accounting policies have been applied.
8.	Potential equity shares and its voting rights	As per Ind AS 110, potential voting rights that are substantive are also considered when assessing whether an entity has control over another entity.	For considering share ownership, potential equity shares of the investee held by investor are not taken into account as per AS 21.
9.	Recognition of deferred taxes	Ind AS 110, read with Ind AS 12, requires recognition of deferred taxes in respect of temporary differences that arise from such elimination in consolidated financial statements.	According to AS 21, the tax expense (comprising current tax and deferred tax) to be shown in the consolidated financial statements should be the aggregate of the amounts of tax expense appearing in the separate financial statements of the parent and its subsidiaries. This means that under AS 21, deferred taxes are not recognised in consolidated financial statements in respect of timing differences that arise from the elimination of profits and losses resulting from intragroup transactions in consolidated financial statements.

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