UNIT 7:
IND AS 27: SEPARATE FINANCIAL STATEMENTS

7.1 OBJECTIVE OF IND AS 27

The objective of Ind AS 27 is to prescribe the accounting and disclosure requirements for **investments in subsidiaries, joint ventures and associates** when an entity prepares separate financial statements.

7.2 SCOPE OF IND AS 27

Ind AS 27 shall be applied in accounting for investments in subsidiaries, joint ventures and associates when an entity

- elects, or
- is required by law,

to present separate financial statements.

It is to be noted that **Ind AS 27 does not mandate which entities produce separate financial statements**. It applies when an entity prepares separate financial statements that comply with Ind AS. However, it may be noted that as per the Companies Act, 2013, all companies covered under that Act are required to prepare financial statements.

7.3 WHAT ARE SEPARATE FINANCIAL STATEMENTS AND HOW THEY ARE PRESENTED?

What are separate financial statements?

Separate financial statements are those presented by:

- a parent (i.e. an investor with control of a subsidiary) or
- an investor with investment in an associate or a joint venture,

in which the investments are accounted for at **cost or in accordance with Ind AS 109** *'Financial Instruments'*.

How separate financial statements are presented?

Separate financial statements are presented:

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- **in addition** to consolidated financial statements or
- **in addition** to financial statements of an investor that does not have investments in subsidiaries but has investments in associates or joint ventures in which investments in associates or joint ventures are accounted for using the equity method.

There are two more scenarios in which separate financial statements are prepared:

Scenario 1

An entity that is exempted from:

- preparation of consolidated financial statements in accordance with paragraph 4(a) of Ind AS 110 (explained in detail in unit 3) or
- applying equity method as per paragraph 17 of Ind AS 28 (explained in detail in unit 6)

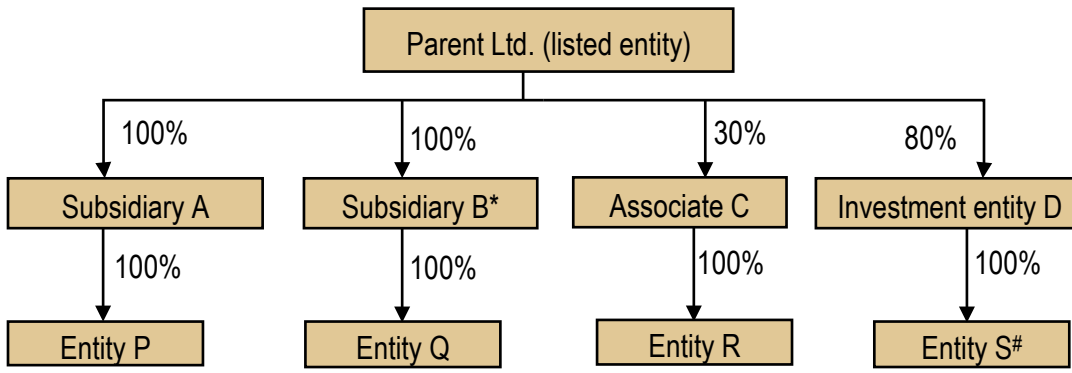
may present separate financial statements as its only financial statements.

Scenario 2

As per para 31 of Ind AS 110, an investment entity that has one or more subsidiaries and the purpose and activities of all those subsidiaries is not to provide services that relate to the investment entity's investment activities then such investment entity shall not prepare consolidated financial statements. Instead, such investments in subsidiaries are to be accounted at fair value through profit or loss as per Ind AS 109.

In such case, investment entity presents separate financial statements as its only financial statements.

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



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

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

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All the above entities are incorporated under the Companies Act, 2013.

Name of the entity	Whether entity prepares consolidated financial statements?	Status for separate financial statements
Parent Ltd.	Yes	Will be prepared as it is required by Companies Act, 2013
Subsidiary A	Yes	Will be prepared as it is required by Companies Act, 2013
Subsidiary B	No	Will be prepared as it is required by Companies Act, 2013 (in this case, entity will present separate financial statements as its only financial statements)
Associate C	Yes	Will be prepared as it is required by Companies Act, 2013
Investment entity D	No	Will be prepared as it is required by Companies Act, 2013. Entity will present separate financial statements as its only financial statements
Entity P	No	These entities will prepare their financial statements as required by Companies Act 2013, however, they will not be termed as separate financial statements since these entities do not have subsidiary, associate or joint venture.
Entity Q	No	
Entity R	No	
Entity S	No	

7.4 PREPARATION OF SEPARATE FINANCIAL STATEMENTS

In this section, we will discuss about following concepts relating to accounting in separate financial statements:

- Accounting of investments in subsidiaries, associates and joint ventures
- Accounting when a parent ceases to be an investment entity or becomes an investment entity
- Accounting of dividend from subsidiary, associate or joint venture
- Reorganisation of the group structure

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7.4.1 Accounting of investments in subsidiaries, associates and joint ventures

An entity shall prepare its separate financial statements in accordance with all the applicable Ind ASs except that it shall account for investments in subsidiaries, associates and joint ventures **in one of the following ways**:

- At cost, or
- In accordance with Ind AS 109 (i.e. either at fair value through profit or loss or at fair value through other comprehensive income)

The entity shall apply the same accounting for each category of investments.

Investments accounted for at cost shall be accounted for in accordance with Ind AS 105 *'Non-current Assets Held for Sale and Discontinued Operations'* when they are classified as held for sale. The measurement of investments accounted for in accordance with Ind AS 109 is not changed in such circumstances.

Example 1

An entity has invested in a subsidiary and a joint venture. Entity has elected to measure investment in subsidiary at cost and measure investment in joint venture at fair value through profit or loss in accordance with Ind AS 109. Now, at the end of the year, both these investments are held for sale. In such case, the investment in subsidiary will be measured as per Ind AS 105 i.e. at lower of its carrying amount and fair value less costs to sell. However, investment in joint venture is continued to be accounted at fair value through profit or loss as per Ind AS 109.

Investments held by investment entities and similar entities

Ind AS 110 requires an investment entity to measure its investment in subsidiaries at fair value through profit or loss as per Ind AS 109. Then the investment entity shall account for those investments **in the same i.e. at fair value through profit or loss** in the separate financial statements.

Further, Ind AS 28 provides that an when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital reorganization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure investments in those associates and joint ventures at fair value through profit or loss in accordance with Ind AS 109. ***An example of an investment-linked insurance fund is a fund held by an entity as the underlying items for a group of insurance contracts with direct***

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participation features. For the purposes of this election, insurance contracts include investment contracts with discretionary participation features. Hence, if an entity makes such election, then it shall also account for those investments **in the same way i.e. at fair value through profit or loss** in its separate financial statements.

7.4.2 Accounting when a parent ceases to be an investment entity or becomes an investment entity

When a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change **from the date when the change in status occurred**, as follows:

When an entity ceases to be an investment entity

In such case, the entity shall account for an **investment in a subsidiary** in either of the following ways:

Account at cost. The fair value of the subsidiary at the date of the change of status shall be used as the **deemed cost** at that date	OR	Continue to account in accordance with **Ind AS 109**

Example 2

A Ltd. was an investment entity and was measuring its investment in subsidiary X Ltd. at fair value. On 1 April 20X1, A Ltd. ceased to be an investment entity. On that date, the fair value of investment in X Ltd. recorded in its books was ₹ 1,00,000. Now, when A Ltd. ceased to be an investment entity, it can measure the investment in X Ltd. either:

- at cost (in such case, the carrying value of ₹ 1,00,000 will be its deemed cost at the date of change in status), or
- continue to measure in accordance with Ind AS 109

When an entity becomes an investment entity

In such case, the entity shall account for an investment in a subsidiary at fair value through profit or loss in accordance with Ind AS 109.

In that case, the difference between the previous carrying amount of the subsidiary and its fair value at the date of the change of status of the investor shall be recognized as a gain or loss in profit or loss. The cumulative amount of any fair value adjustment previously recognized in other comprehensive income in respect of those subsidiaries shall be reclassified to profit or loss as if the investment entity had disposed of those subsidiaries at the date of change in status.

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Example 3

A Ltd. holds investment in a subsidiary X Ltd. and it measures its investment in subsidiary at cost. On 1 April 20X1, A Ltd. becomes an investment entity. On that date, the carrying value of investment in X Ltd. recorded in its books was ₹ 1,00,000. However, the fair value of that investment on the date of change in status was ₹ 1,50,000. Hence, A Ltd. should record a gain of ₹ 50,000 (1,50,000 – 50,000) in the profit of loss.

In this case, assume that A Ltd. was measuring the above investment at fair value through other comprehensive income in accordance with Ind AS 109 prior to change in status. The cumulative gain recorded in other comprehensive income was ₹ 50,000 and the carrying value of investment was ₹ 1,50,000. Hence, on the date of change in status, A Ltd. shall reclassify the gain of ₹ 50,000 from other comprehensive income to profit or loss as if the investment has been disposed by A Ltd. on that date.

7.4.3 Accounting of dividend from subsidiary, associate or joint venture

An entity shall recognise a dividend from a subsidiary, an associate or a joint venture in profit or loss in its separate financial statements when its right to receive the dividend is established.

Generally, the right to receive the dividend is established when the dividend is approved by the shareholders in their general meeting.

7.4.4 Reorganisation of the group structure

A parent reorganisation the structure of its group by establishing a new entity as its parent.

Ind AS 27 provides guidance on how to calculate the cost of investment when a parent reorganisation the structure of its group by establishing a new entity as its parent in a manner that satisfies the following criteria:

a) the new parent obtains control of the original parent by **issuing equity instruments** in exchange for existing equity instruments of the original parent;

b) the **assets and liabilities** of the new group and the original group are the **same** immediately before and after the reorganisation; and

c) the owners of the original parent before the reorganisation have the **same absolute and relative interests** in the net assets of the original group and the new group immediately before and after the reorganisation,

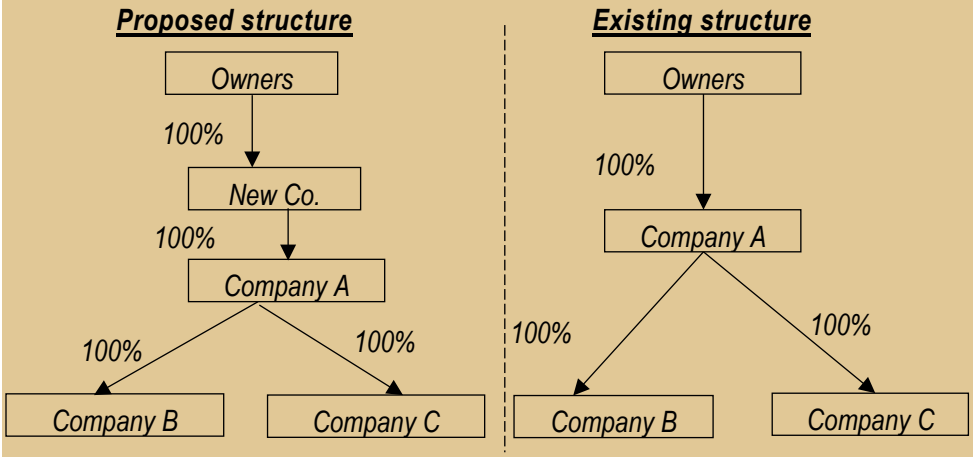
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If above conditions are fulfilled and the new parent elects to account for its investment in the original parent at cost then the new parent shall measure cost at the **carrying amount of its share of the equity** items shown in the separate financial statements of the original parent at the date of the reorganisation.

This is explained in following illustration:

Illustration 1: Reorganisation of the group structure

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



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

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

After the proposed restructuring, New Co. wants to record its investment in Company A at cost.

Determine how it should measure the cost of investment in Company A?

Solution:

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

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

b) the assets and liabilities of the group immediately before and the proposed restructuring will be same; and

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

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

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A entity that is not a parent establishes a new entity as its parent

The requirements of measuring cost of investment by a new parent as discussed above will equally apply in case where an entity that is not a parent (i.e. it does not have a subsidiary) establishes a new parent between itself and its owners.

Hence, in illustration 1 above, the same accounting treatment will have to be followed by New Co. even if Company A does not have any subsidiary.

7.5 MAJOR CHANGES IN IND AS 27 FROM IAS 27 NOT RESULTING INTO CARVE OUT

Ind AS 27, like other Ind AS, has been converged from the global standards, i.e., IFRS, which has been made applicable to the Indian entities (based on the net worth criteria) in a phased manner via Ministry of Corporate Affairs Roadmap. While converging from IAS 27, following are the carve outs given under Appendix 1 to Ind AS 27, keeping in mind, the requirements of other converged Ind AS and the economic environment in India.

IAS 27 allows the entities to use the equity method to account for investment in subsidiaries, joint ventures and associates in their Separate Financial Statements (SFS). Such option is not given in Ind AS 27, as the equity method is not a measurement basis like cost and fair value but is a manner of consolidation and therefore would lead to inconsistent accounting conceptually.

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