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Exposure Draft

Accounting Standard (AS) 110

Consolidated and Separate Financial Statements

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Issued by
Accounting Standards Board
The Institute of Chartered Accountants of India

Exposure Draft

Accounting Standard (AS) 110, *Consolidated and Separate Financial Statements*

The Indian Accounting Standards (Ind AS), as notified by the Ministry of Corporate Affairs in February 2015, are applicable to the specified class of companies. Accounting Standards notified under Companies (Accounting Standards) Rules 2021, and those issued by the ICAI are applicable to entities to whom Ind AS are not applicable. However, on the basis of the discussions held at various standard setting forums, it has been decided to revise the Accounting Standards. Accordingly, the Accounting Standards Board of ICAI has initiated the process of revision of these standards which will be applicable to the entities to whom Ind AS are not applicable. While formulating these Standards, it was decided to maintain the consistency in the numbering of AS with Ind AS numbering.

In the above background, the ASB has finalised AS 110, *Consolidated and Separate Financial Statements*, taking AS 21, *Consolidated Financial Statements*, notified by MCA as the base. Major differences between draft of AS 110 and Ind AS 110, *Consolidated Financial Statements* and Ind AS 27, *Separate Financial Statements*, are included in the Appendix 1 of the Standard. Major differences between draft of AS 110 and AS 21 are included in the Appendix 2 of the Standard.

This is the Exposure Draft of the AS 110, *Consolidated and Separate Financial Statements*, issued by the ASB, for comments.

The ASB invites comments on any aspect of this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

How to Comment:
Comments can be submitted using one of the following methods so as to receive not later than ***February 3, 2022.***

Electronically:	click on http://www.icai.org/comments/asb/to submit comments online
Email:	Comments can be sent at commentsasb@icai.in
Postal:	Secretary, Accounting Standards Board, The Institute of Chartered Accountants of India ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002

Further clarifications on any aspect of this Exposure Draft may be sought by e-mail to asb@icai.in.

Accounting Standard (AS) 110

Consolidated and Separate Financial Statements[1]

*[This Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.*

Objective

The objective of this Standard is to lay down principles and procedures for preparation and presentation of consolidated and separate financial statements. Consolidated financial statements are presented by a parent (also known as holding entity) to provide financial information about the economic activities of its group. These statements are intended to present financial information about a parent and its subsidiary(ies) as a single economic entity to show the economic resources controlled by the group, the obligations of the group and results the group achieves with its resources. Separate financial statements are presented by a parent (i.e an investor with control of a subsidiary) or an investor with joint control of, or significant influence over, an investee.

Scope

1. This Standard shall be applied in the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent.

2. This Standard shall also be applied in accounting for investments in subsidiaries, joint controlled entities and associates in the separate financial statements of a parent or an investor with joint control of, or significant influence over, an investee.

3. In the preparation of consolidated financial statements, other Accounting Standards also apply.

4. This Standard does not deal with

(a) methods of accounting for amalgamations and their effects on consolidation, including goodwill arising on amalgamation (see AS 103, *Accounting for Amalgamations*);

(b) accounting for investments in associates in consolidated financial statements (see AS 28, *Accounting for Investments in Associates and Jointly Controlled Entities*); and

(c) accounting for investments in joint ventures in consolidated financial statements (see AS 111, *Financial Reporting of Interests in Joint Ventures*).

Definitions

5. For the purpose of this Standard, the following terms are used with the meanings specified:

Control (of an entity) - The power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

A subsidiary is an entity that is controlled by another entity (known as the parent).
A parent is an entity that has one or more subsidiaries.

[1] It is clarified that AS 110 does not require an entity to presents consolidated financial statements. In other words, the accounting standard does not mandate an entity to present consolidated financial statements but, if the entity presents consolidated financial statements for complying with the requirements of any statute or otherwise, it should prepare and present consolidated financial statements in accordance with AS 21.

A group is a parent and all its subsidiaries.

Consolidated financial statements are the financial statements of a group presented as those of a single entity.

Equity is the residual interest in the assets of an entity after deducting all its liabilities.

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

Separate financial statements are those presented by a parent (i.e. an investor with control of a subsidiary) or an investor with joint control of, or significant influence over, an investee, in which the investments are accounted for at cost or in accordance with AS 109, *Financial Instruments*.

Section A: Consolidated Financial Statements

6. Consolidated financial statements normally include consolidated balance sheet, consolidated statement of profit and loss, consolidated cash flow statement, and notes, other statements and explanatory material that form an integral part thereof. Consolidated cash flow statement is presented in case a parent presents its own cash flow statement[2].

Explanation:

All the notes appearing in the separate financial statements of the parent entity and the financials statements of its subsidiaries need not be included in the notes to the consolidated financial statement. For preparing consolidated financial statements, the following principles may be observed in respect of notes and other explanatory material that form an integral part thereof:

(a) Notes which are necessary for presenting a true and fair view of the consolidated financial statements are included in the consolidated financial statements as an integral part thereof.

(b) Only the notes involving items which are material need to be disclosed. Materiality for this purpose is assessed in relation to the information contained in consolidated financial statements. In view of this, it is possible that certain notes which are disclosed in separate financial statements of a parent or in the financial statements of a subsidiary would not be required to be disclosed in the consolidated financial statements when the test of materiality is applied in the context of consolidated financial statements.

(c) Additional statutory information disclosed in financial statements of the subsidiary and/or separate financials statements of a parent having no bearing on the true and fair view of the consolidated financial statements need not be disclosed in the consolidated financial statements.

Scope of Consolidated Financial Statements

7. A parent which presents consolidated financial statements shall consolidate all subsidiaries, domestic as well as foreign.

[2] As per Companies Act, 2013, in case of one person company, small company and dormant company, financial statements may not include cash flow statement.

8. The consolidated financial statements are prepared on the basis of financial statements of parent and all entities that are controlled by the parent. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. That presumption may be overcome in exceptional circumstances if it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the parent owns half or less of the voting power of an entity but it has:

a) power over more than half of the voting rights by virtue of an agreement with other investors;
b) power to govern the financial and operating policies of the entity under a statute or an agreement;
c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or
d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

Control can also be achieved by having options or convertible instruments that are currently exercisable or by having an agent with the ability to direct the activities for the benefit of the controlling entity.

9. This AS does not apply to post-employment benefits plans or other long-term employee benefit plans to which AS 19, *Employee Benefits*, applies.

10. Exclusion of a subsidiary from consolidation on the ground that its business activities are dissimilar from those of the other entities within the group is not justified because better information is provided by consolidating such subsidiaries and disclosing additional information in the consolidated financial statements about the different business activities of subsidiaries. For example, the disclosures required by AS 108, *Segment Reporting,* help to explain the significance of different business activities within the group.

Consolidation Procedures

11. Consolidated financial statements shall:

a) **combine like items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries.**
b) **offset (eliminate) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary (AS 103 explains how to account for any related goodwill/capital reserve).**
c) **eliminate in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group (profits or losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full). Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements. AS 12, *Income Taxes*, applies to timing differences that arise from the elimination of profits and losses resulting from intragroup transactions.**

12. Consolidation of subsidiary shall begin when parent obtains control of subsidiary. The parent's portion of equity in a subsidiary, at the date on which control is obtained, is determined on the basis of information contained in the financial statements of the subsidiary as on that date. However, if the financial statements of a subsidiary, as on the date on which control is obtained, are not available and if it is impracticable, as defined in AS 1, *Presentation of Financial Statements,* to draw the financial statements of the subsidiary as on that date, financial statements of the subsidiary for the immediately preceding period are used as a basis for consolidation.

Adjustments are made to these financial statements for the effects of significant transactions or other events that occur between the date of such financial statements and the date on which control is obtained in the subsidiary.

13. If an entity makes two or more investments in another entity at different dates and eventually obtains control of the other entity, the consolidated financial statements are presented only from the date on which holding-subsidiary relationship comes in existence. If two or more investments are made over a period of time, the equity interest of the subsidiary, for the purposes of paragraph 11 above, is generally determined on a step-by-step basis and shall be remeasured at fair value on the date when control is obtained and the resulting gain or loss, if any, shall be recognised in profit or loss..

Non-controlling interests

14. An entity shall present non-controlling interest in the consolidated balance sheet within equity, separately from the equity of the owners of the parent.

15. An entity shall attribute the profit or loss to the owners of the parent and to the non-controlling interest.

16. The profit or loss shall be attributed to owners of the parent and to the non-controlling interest. Profit or loss shall be attributed to the owners of the parent and to the non-controlling interest even if this results in the non-controlling interest having a deficit balance.

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

Uniform reporting date

18. The financial statements used in the consolidation shall be drawn up to the same reporting date. If it is impracticable, as defined in AS 1, *Presentation of Financial Statements*, to draw up the financial statements of one or more subsidiaries to such date and, accordingly, those financial statements are drawn up to different reporting dates, adjustments shall be made for the effects of significant transactions or other events that occur between those dates and the date of the parent's financial statements. In any case, the difference between reporting dates shall not be more than three months.

19. The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements are usually drawn up to the same date. When the reporting dates are different, the subsidiary often prepares, for consolidation purposes, statements as at the same date as that of the parent. When it is impracticable to do this, financial statements drawn up to different reporting dates may be used provided the difference in reporting dates is not more than three months. The consistency principle requires that the length of the reporting periods and any difference in the reporting dates shall be the same from period to period.

Uniform accounting policies

20. Consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances. If it is impracticable, as defined in AS 1 to use uniform accounting policies in preparing the consolidated financial statements, that fact shall be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.

21. 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 its financial statements when they are used in preparing the consolidated financial statements.

Loss of control

22. Consolidation of subsidiary ceases when parent losses control of the subsidiary. The results of operations of a subsidiary with which parent-subsidiary relationship ceases to exist are included in the consolidated statement of profit and loss until the date of cessation of the relationship. When the parent losses control of a subsidiary, it shall:

(a) recognise the fair value of the consideration received and any investment retained at its fair value at the date when control is lost.

(b) derecognise:

(i) the assets and liabilities of the subsidiary at their carrying amounts at the date when control is lost; and
(ii) the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost.

(c) recognise any resulting difference as a gain or loss in profit or loss attributable to the parent.

23. An investment in an entity shall be accounted for in accordance with AS 109 from the date that the entity ceases to be a subsidiary and does not become an associate (in which case AS 28 applies) or a jointly controlled entity (in which case AS 111 applies).

Disclosures

24. In addition to disclosures required by paragraph 20, following disclosures shall be made:

(a) the fact that the statements are consolidated financial statements

(b) a list of all subsidiaries including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held;

(c) where applicable:

(i) the basis for concluding that control exists between the parent and a subsidiary;

(ii) the gain or loss, if any, calculated in accordance with paragraph 22 and the portion of that gain or loss attributable to measuring any investment retained in the former subsidiary at its fair value at the date when parent lost control of the -subsidiary; and

(iii) the names of the subsidiary(ies) of which reporting date(s) is/are different from that of the parent and the difference in reporting dates.

Section B: Separate Financial Statements

25. Separate financial statements are those presented in addition to consolidated financial statements or in addition to financial statements in which investments in associates or joint

controlled entities are accounted for using the equity method.

26. Financial statements in which the equity method is applied are not separate financial statements. These may also be termed as 'consolidated financial statements'. Similarly, the financial statements of an entity that does not have a subsidiary, investments in associates or joint Ventures are not separate financial statements.

27. Separate financial statements shall be prepared in accordance with all applicable AS, except as provided in paragraph 28.

28. When an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either:

(a) at cost, or

(b) in accordance with AS 109.

The entity shall apply the same accounting for each category of investments. Investments accounted for at cost shall be accounted for in accordance with AS 105, *Non-current Assets Held for Sale and Discontinued Operations,* when they are classified as held for sale (or included in a disposal group that is classified as held for sale). The measurement of investments accounted for in accordance with AS 109 is not changed in such circumstances.

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

Disclosures

30. An entity shall apply all applicable AS when providing disclosures in its separate financial statements, including the requirements in paragraph 31.

31. A parent, an investor with joint control of, or significant influence over, an investee shall identify its separate financial statements and the consolidated financial statements prepared in accordance with this standard or the financial statements prepared in accordance with AS 111 or AS 28. The parent or investor shall also disclose in its separate financial statements:

(a) the fact that the statements are separate financial statements;

(b) a list of significant investments in subsidiaries, joint ventures and associates, including:

(i) the name of those investees.

(ii) the principal place of business (and country of incorporation, if different) of those investees.

(iii) its proportion of the ownership interest (and its proportion of the voting rights, if different) held in those investees.

(c) a description of the method used to account for the investments listed in (b).

Appendix 1

Note 1: This Appendix is not a part of the Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 110 and Ind AS 27 and the corresponding revised Accounting Standard (AS) 110, Consolidated and Separate Financial Statements.

Comparison with Ind AS 110, *Consolidated Financial Statements* and Ind AS 27, *Separate Financial Statements*

1. Revised AS 110 provides requirement for both Consolidated and Separate Financial Statements in single standard. Accordingly, the revised AS is titled as AS 110, *Consolidated and Separate Financial Statements*. While under Ind AS, there are 2 different standards, Ind AS 110 dealing with consolidated financial statements and Ind AS 27 on Separate Financial Statements.

2. Ind AS 110 makes the preparation of consolidated financial statements mandatory for a parent (subject to limited exceptions). Revised AS 110 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 revised AS 110 in preparing and presenting such financial statements.

3. Revised AS 110 defines control as - the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control in Ind AS 110, on the other hand, is defined as - 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.

4. Unlike revised AS 110, 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.

5. Both revised AS 110 and Ind AS 110, require the use of uniform accounting policies. However, unlike Ind AS 110, revised AS 110 allows the use of non-uniform accounting policies if it is impracticable to use uniform accounting policies, disclosure is, however, required of, that fact together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.

6. Ind AS 110 covers exceptions and reporting requirements related to investment entity. Revised AS 110 does not cover the same.

Appendix 2

Note 1: This Appendix is not a part of the Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Revised Accounting Standard (AS) 110 and the Accounting Standard (AS) 21, Consolidated Financial Statements.

Note 2: : Paragraph numbers appearing in Revised AS 110 can be different as compared to those in AS 21.

Comparison with AS 21, *Consolidated Financial Statements*

1. Revised AS 110 provides requirement for both Consolidated and Separate Financial Statements in single standard. Under AS, accounting for separate financial statements for parent, associates and joint venture were covered in AS 21, AS 23 and AS 27 respectively.

2. 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. Revised AS 110 defines control as - *the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities*. Due to differences in the definitions of control under the two standards, the assessment as to whether an entity controls another entity can differ between the two standards.

3. As per AS 21, a subsidiary is excluded from consolidation when control is intended to be temporary or it operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent. Revised AS 110 does not permit exclusion of a subsidiary from consolidation on these grounds.

4. There can occasionally be situations where application of the definition of 'control' as per revised 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. On the other hand, as per the definition of 'control' under revised AS 110 control of an entity can be with one entity only.

5. For considering share ownership, potential equity shares of the investee held by investor are not taken into account as per existing AS 21. However, as per revised AS 110, potential voting rights that are currently exercisable are also considered when assessing whether an entity has control over another entity.

6. 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 intra-group transactions in consolidated financial statements. Revised AS 110 requires that AS 12 shall be applied to timing differences that arise from such elimination in consolidated financial statements.

7. 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. Under revised AS 110, such difference cannot exceed three months.

8. AS 21 require that consolidated financial statements shall be prepared using uniform accounting

policies for like transactions and other events in similar circumstances and if it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed. Since revised AS 1 use the terminology ‘impracticable’, under revised AS 110, the term ‘not practicable’ has been replaced by ‘impracticable’ to align the same with revised AS 1.