

Accounting Standards Interpretation (ASI) 17¹

Adjustments to the Carrying Amount of Investment arising from Changes in Equity not Included in the Statement of Profit and Loss of the Associate

Accounting Standard (AS) 23, Accounting for Investments in Associates in Consolidated Financial Statements

[Pursuant to the issuance of this Accounting Standards Interpretation, General Clarification (GC) – 7/2002, issued in June 2002, stands withdrawn.]

ISSUE

1. The issue is as to how the adjustments to the carrying amount of investment in an associate arising from changes in the associate's equity that have not been included in the statement of profit and loss of the associate, should be made.

CONSENSUS

2. Adjustments to the carrying amount of investment in an associate arising from changes in the associate's equity that have not been included in the statement of profit and loss of the associate should be directly made in the carrying amount of investment without routing it through the consolidated statement of profit and loss. The corresponding debit/credit should be made in the relevant head of the equity interest in the consolidated balance sheet. For example, in case the adjustment arises because of revaluation of fixed assets by the associate, apart from adjusting the carrying amount of investment

¹ Published in 'The Chartered Accountant', March 2004, pp. 960. The authority of this ASI is the same as that of the Accounting Standard to which it relates. The contents of this ASI are intended for the limited purpose of the Accounting Standard to which it relates. ASI is intended to apply only to material items.

to the extent of proportionate share of the investor in the revalued amount, the corresponding amount of revaluation reserve should be shown in the consolidated balance sheet.

BASIS FOR CONCLUSIONS

3. Paragraph 6 of AS 23 states as follows:

“6. Under the equity method, the investment is initially recorded at cost, identifying any goodwill/capital reserve arising at the time of acquisition and the carrying amount is increased or decreased to recognise the investor’s share of the profits or losses of the investee after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for alterations in the investor’s proportionate interest in the investee arising from changes in the investee’s equity that have not been included in the statement of profit and loss. Such changes include those arising from the revaluation of fixed assets and investments, from foreign exchange translation differences and from the adjustment of differences arising on amalgamations.”

4. In view of the above, adjustments to the carrying amount of an investment in an associate are made for alterations in the investor’s proportionate interest in the investee arising from changes in the investee’s equity that have not been included in the statement of profit and loss. In respect of the corresponding effect of such adjustments, it is not appropriate to route the same through the consolidated statement of profit and loss since the relevant item has not been recognised by the associate in its statement of profit and loss.