Accounting Standards Interpretation (ASI) 28[1]

Disclosure of parent's/venturer's shares in post-acquisition reserves of a subsidiary/ jointly controlled entity

Accounting Standard (AS) 21, Consolidated Financial Statements and AS 27, Financial Reporting of Interests in Joint Ventures

ISSUE

1. What should be the manner of disclosure of the parent's/venturer's share in the post-acquisition reserves of a subsidiary/jointly controlled entity in the consolidated balance sheet?

CONSENSUS

2. The parent's share in the post-acquisition reserves of a subsidiary, forming part of the corresponding reserves in the consolidated balance sheet, is not required to be disclosed separately in the consolidated balance sheet.

3. While applying proportionate consolidation method, the venturer's share in the post-acquisition reserves of the jointly controlled entity should be shown separately under the relevant reserves in the consolidated financial statements.

BASIS FOR CONCLUSIONS

4. The objective paragraph of AS 21 provides, inter alia, that the consolidated financial 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 the results the group achieves with its resources. Further, paragraph 8 of

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[1] Published in'The Chartered Accountant', March 2004, pp. 970. 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.

AS 21 provides that users of the financial statements of a parent are usually concerned with, and need to be informed about, the financial position and results of operations of not only the enterprise itself but also of the group as a whole. It further provides that this need is served by providing the users separate financial statements of the parent and consolidated financial statements, which present financial information about the group as that of a single enterprise without regard to the legal boundaries of the separate legal entities.

5. Paragraph 13 of AS 21, as a starting point of applying consolidation procedures, provides, inter alia, that in preparing consolidated financial statements, the financial statements of the parent and its subsidiaries should be combined on a line by line basis adding together like items of assets, liabilities, income and expenses. Pursuant to this, the reserves of the subsidiary(ies) are also added line by line with the corresponding reserves of the parent. Other provisions of paragraph 13 and paragraphs 14 to 27 lay down other consolidation procedures which, considering the overall scheme of the consolidation procedures, are to be applied after addition on a line by line basis. These procedures are applied so as to present financial information about the group as that of a single enterprise. The effect of applying consolidation procedures as per AS 21 is that the parent's share in the post-acquisition reserves of the subsidiary forms part of the corresponding reserves in the consolidated balance sheet. This is not disclosed separately keeping in view the objective of consolidated financial statements to present financial information of the group as a whole.

6. Paragraphs 31 and 33 of AS 27 provide as below:

> "31. The application of proportionate consolidation means that the consolidated balance sheet of the venturer includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible. The consolidated statement of profit and loss of the venturer includes its share of the income and expenses of the jointly controlled entity. Many of the procedures appropriate for the application of proportionate consolidation are similar to the procedures for the consolidation of investments in subsidiaries, which are set out in Accounting Standard (AS) 21, Consolidated Financial Statements."

> "33. Under proportionate consolidation, the venturer includes separate line items for its share of the assets, liabilities, income and expenses of the jointly controlled entity in its consolidated financial statements. For

example, it shows its share of the inventory of the jointly controlled entity separately as part of the inventory of the consolidated group; it shows its share of the fixed assets of the jointly controlled entity separately as part of the same items of the consolidated group."

In view of the above, while applying proportionate consolidation method, as in the case of items of assets and liabilities, the venturer's share in the post-acquisition reserves of the jointly controlled entity is shown separately under the relevant reserves in the consolidated financial statements.