

Accounting Standards Interpretation (ASI) 8¹

Interpretation of the term ‘Near Future’

Accounting Standard (AS) 21, Consolidated Financial Statements, AS 23, Accounting for Investments in Associates in Consolidated Financial Statements and AS 27, Financial Reporting of Interests in Joint Ventures

ISSUE

1. Paragraph 11 of AS 21, paragraph 7 of AS 23 and paragraph 29 of AS 27 use the words ‘near future’ in the context of exclusions from consolidation, application of the equity method and application of the proportionate consolidation method, respectively.
2. The issue is what period of time should be considered as ‘near future’ for the above purposes.

CONSENSUS

3. The issue as to what period of time should be considered as near future for the purposes of AS 21, AS 23 and AS 27 primarily depends on the facts and circumstances of each case. However, ordinarily, the meaning of the words ‘near future’ should be considered as not more than twelve months from acquisition of relevant investments unless a longer period can be justified on the basis of facts and circumstances of the case. The intention with regard to disposal of the relevant investment should be considered at the time of acquisition of the investment. Accordingly, if the relevant investment is acquired without an intention to its subsequent disposal in near future, and subsequently, it is decided to dispose off the investment, such an investment is not excluded from consolidation, application of the equity method or application of the proportionate consolidation method, as the case may be,

¹ Published in ‘The Chartered Accountant’, November 2003, pp. 490-491. The authority of this ASI is the same as that of the Accounting Standards to which it relates. The contents of this ASI are intended for the limited purpose of the Accounting Standards to which it relates. ASI is intended to apply only to material items.

until the investment is actually disposed off. Conversely, if the relevant investment is acquired with an intention to its subsequent disposal in near future, however, due to some valid reasons, it could not be disposed off within that period, the same will continue to be excluded from consolidation, application of the equity method or application of the proportionate consolidation method, as the case may be, provided there is no change in the intention.

BASIS FOR CONCLUSIONS

4. A period of more than twelve months would not normally signify 'near future'. Accordingly, it is considered appropriate that the near future should normally be considered as a period not exceeding twelve months.

5. Paragraph 11 of AS 21, paragraph 7 of AS 23 and paragraph 29 of AS 27, also use the words, 'acquired and held'. Accordingly, for exclusion from consolidation, application of the equity method or application of the proportionate consolidation, as the case may be, consideration of the intention at the time of acquisition of the relevant investment is essential.