

## Accounting Standards Interpretation (ASI) 24<sup>1</sup>

### Definition of 'Control'

#### Accounting Standard (AS) 21, Consolidated Financial Statements

*[Pursuant to the issuance of this Accounting Standards Interpretation, General Clarification (GC) – 16/2002, issued in October 2002, stands withdrawn.]*

#### ISSUE

1. In case an enterprise is controlled by two enterprises - one controls by virtue of ownership of majority of the voting power of that enterprise and the other controls, by virtue of an agreement or otherwise, the composition of the board of directors so as to obtain economic benefits from its activities - whether in such a case both the controlling enterprises should consolidate the financial statements of the first mentioned enterprise.

#### CONSENSUS

2. In a rare situation, when an enterprise is controlled by two enterprises as per the definition of 'control' under AS 21, the first mentioned enterprise will be considered as subsidiary of both the controlling enterprises within the meaning of AS 21 and, therefore, both the enterprises should consolidate the financial statements of that enterprise as per the requirements of AS 21.

#### BASIS FOR CONCLUSIONS

3. AS 21 defines "control" and "subsidiary" as under:

**“Control:**

**(a) *the ownership, directly or indirectly through subsidiary(ies), of more than one-half of the voting power of an enterprise; or***

---

<sup>1</sup> Published in 'The Chartered Accountant', March 2004, pp. 967. 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.

*(b) control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise so as to obtain economic benefits from its activities.*

*A subsidiary is an enterprise that is controlled by another enterprise (known as the parent)."*

The definition of 'control' lays down two independent tests as above. Consequently, it is possible that an enterprise is controlled by two enterprises - one controls by virtue of ownership of majority of the voting power of that enterprise and the other controls, by virtue of an agreement or otherwise, the composition of the board of directors so as to obtain economic benefits from its activities. This Interpretation, while recognising that the above situation will occur rarely, requires that in such a case, the first mentioned enterprise will be considered as subsidiary of both the controlling enterprises within the meaning of AS 21 and, therefore, both the enterprises should consolidate the financial statements of that enterprise as per the requirements of AS 21.