Consolidation - Associate

- Initial Accounting (**On the date of Investment i.e. Retrospective**)
  - Calculation of Goodwill/ Capital Reserve
  - Goodwill = Cost of Investment (PC) – Share of Equity

Equity Method

	Investment
+	Goodwill/ (Capital Reserve)
=	Cost
+	Profit/ Loss
-	Dividends
=	Carrying amount of investments

Equity Method

- Elimination of unrealised profits/ losses to the extent of investor's interest in the associate
- Uniform Accounting Policies

Example

- H Ltd. holds 25% stake in A Ltd at cost of Rs. 5 lacs. Goodwill of Rs. 1 Lac. At the time of investment, Share capital was 10 lacs and Reserves was 6 lacs.
- As at March 31, 2014, A's share capital is 10 lacs and Reserves is 30 lacs
- Also CY profit is 8 lacs and dividend is 4 lacs.
- How will these transactions be accounted for?

Solution

Investment	4 lacs
Goodwill	1 lacs
Cost	5 lacs
Share of Post-acq Reserves	6 lacs
Share of CY profit	2 lacs
Share of Dividend	(1 lac)
Carrying Amount	12 lacs

Case Study

- X ltd. invests in 25% shares of A Ltd in 2012. In 2014, A Ltd revalues its assets by Rs. 15 lacs and creates revaluation reserve to that extent.
- How should X Ltd account for this using Equity Method in its consolidated financial statements?

Step Acquisition (15 to 30)

Date	% Investment	Amount	Net worth as on that date
01/04/2010	15	5,00,000	15,00,000
01/04/2012	15	4,00,000	20,00,000

Cost of Investment: 5,00,000 + 4,00,000 = 9,00,000
Equity as on date of significant influence: 20,00,000
Share of Equity (30%): 6,00,000
Goodwill: 9,00,000-6,00,000 = **3,00,000**

Goodwill

- AS 23 is silent on amortisation
- AS 26 – acquired goodwill – 10 years rebuttable period
- Mixed opinions
- Tested for impairment

Case Study

- T Company equity accounts for its 40% interest in S Company. S's financial statements include the following:

	Rs'000
Revenue	600,000
Cost of sales	(250,000)
	350,000
Operating expenses	(285,000)
	65,000
Tax	(20,000)
	45,000

- Is the following statement true or false?
- T's consolidated revenue should include Rs. 240,000 in respect of S
  - True
  - False

Case Study

- T Company equity accounts for its 40% interest in S Company. S's financial statements include the following:

	Rs'000
Revenue	600,000
Cost of sales	(250,000)
	350,000
Operating expenses	(285,000)
	65,000
Tax	(20,000)
	45,000

- Is the following statement true or false?
- T's consolidated profit before tax should include Rs. 26,000 in respect of S
  - True
  - False

Case Study

- P Company owns 80% of M Company and 35% of O Company. The tax charges in their individual statements of comprehensive income are:

P	Rs. 200,000
M	Rs. 560,000
O	Rs. 800,000

- What amount should be shown as the tax charge in the consolidated statement of Profit & Loss?
  - Rs. 1,560,000
  - Rs. 760,000
  - Rs. 1,040,000
  - Rs. 928,000

Case Study

- C Company owns 25% of B Company. The following figures are from their separate financial statements:
- C: Trade receivables Rs. 840,000, including Rs. 30,000 due from B
- B: Trade receivables Rs. 215,000, including Rs. 50,000 due from C
- What figure should appear for trade receivables in C's consolidated balance sheet?
  - Rs. 1,055,000
  - Rs. 1,035,000
  - Rs. 832,500
  - Rs. 840,000

Case Study

- Partnership firm is a subsidiary, associate or a joint venture?

Joint Venture Accounting

- Jointly Controlled Operations
- Jointly Controlled Assets
- Jointly Controlled Entities

- Contractual Agreement is must!!
- Mandatory for Separate Financial Statements also

JCO

- Own Assets
- Own Liabilities
- Own Expenses
- Share of Income

JCA

- its share of the jointly controlled assets
- any liabilities which it has incurred;
- its share of liabilities, if any
- Its share of income and expenses
- Its own expenses

JCE

- Proportionate Consolidation Method
- Uniform accounting policies
- Calculate Goodwill/ Capital Reserve
- De-recognise own share of unrealised gains/ losses

Case Study

A Ltd has a 25% equity interest in JV Ltd which has been correctly classified as a jointly controlled entity.

During the year ended 31 March 2015 A Ltd sold goods to JV Ltd for Rs. 1,60,000. JV Ltd held these goods in its inventory at 31 March 2015. The goods had cost A Ltd Rs. 1,00,000.

What amount in respect of JV Ltd's inventories should A Ltd recognise in its consolidated balance sheet at 31 March 2015?

- Rs. 36,250
- Rs. 40,000
- Rs. 25,000
- Rs. 100,000

Illustrative Accounting Policies

Wipro Limited

ii. Principles of consolidation

The consolidated financial statements have been prepared on the following basis:

- The consolidated financial statements include the financial statements of Wipro and all its subsidiaries, which are more than 50% owned or controlled. The financial statements of the parent company and its majority owned / controlled subsidiaries have been combined on a line by line basis by adding together the book values of all items of assets, liabilities, incomes and expenses after eliminating all inter-company balances / transactions and resulting unrealized gain / loss.
- The excess of the cost to the parent of its investments in a subsidiary over the parent's portion of equity at the date on which investment in the subsidiary is made, is recognised as 'Goodwill'. When the cost to the parent of its investment in a subsidiary is less than the parent's portion of equity of the subsidiary at the date on which investment in the subsidiary is made, the difference is treated as 'Capital Reserve' in the consolidated financial statements.
- Minority interest in the net assets of consolidated subsidiaries consists of:

  a) the amount of equity attributable to the minorities at the dates on which investment in a subsidiary is made; and

  b) the minorities share of movements in equity since the date of parent-subsidiary relationship came into existence.

  Minority interest in share of net result for the year is identified and adjusted against the profit after tax. Excess of loss, if any, attributable to the minority over and above the minority interest in the equity of the subsidiaries is absorbed by the Company.
- The consolidated financial statements are prepared using uniform accounting policies for similar transactions and other events in similar circumstances.

TATA Capital Limited

ii. Basis for Consolidation

The Consolidated Financial Statements comprise the individual financial statements of the Company, its subsidiaries, its jointly controlled entity and associates as on March 31, 2012 and for the period ended on that date. The Consolidated Financial Statements have been prepared on the following basis:

a) The financial statements of the Company and its subsidiaries have been consolidated on a line by line basis by adding together the book values of like items of assets, liabilities, income and expenses, after eliminating intra - group balances and intra - group transactions resulting in unrealised profits or losses as per Accounting Standard (AS) 21 on 'Consolidated Financial Statements' as notified by the Companies (Accounting Standards) Rules, 2006.

b) The financial statements of the jointly controlled entities have been consolidated on a line by line basis by adding together the book values of like items of assets, liabilities, income and expenses, after eliminating intra-group balances and intra-group transactions resulting in unrealised profits or losses as per Accounting Standard 27 on 'Financial Reporting of Interests in Joint Ventures' as notified by the Companies (Accounting Standards) Rules, 2006 using the "proportionate consolidation" method.

c) The consolidated financial statements include the share of profit/(loss) of associate companies, which are accounted under the "Equity method" in accordance with Accounting Standard (AS) 23 on 'Accounting for Investments in Associates in Consolidated Financial Statements' as notified by the Companies (Accounting Standards) Rules, 2006, the share of profit/(loss) of the associate company has been added/deducted to the cost of investment. An Associate is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a jointly controlled entity.

d) The financial statements of the subsidiaries and the associates used in the consolidation are drawn up to the same reporting date as that of the Company, i.e. March 31, 2012.

e) The excess of cost to the Company, of its investment in the subsidiaries and the associates over the Company's portion of equity is recognised in the financial statements as Goodwill and is tested for impairment on an annual basis.

f) The excess of the Company's portion of equity of the subsidiaries and the associates on the acquisition date over its cost of investment is treated as Capital Reserve.

TATA Capital Limited
CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED MARCH 31, 2012

(Rs. in Lakhs)

		Note No.	For the Year Ended March 31, 2012	For the Year Ended March 31, 2011
I	Financing Income	21	205,948	138,416
II	Investment Income	22	41,415	22,365
III	Other Income	23	21,947	11,745
IV	**Total Revenue (I + II + III)**		**269,309**	**172,526**
V	**Expenses :**			
	Finance costs	24	156,611	101,032
	Employee benefits expense	25	23,354	18,154
	Other operating expenses	26	43,932	42,080
	Depreciation and amortisation	11	3,842	2,664
	Amortisation of expenses		2,038	2,064
	Total expenses		**229,777**	**165,994**
VI	**Profit before exceptional and extraordinary items and tax (IV - V)**		**39,532**	**6,532**
VII	**Exceptional items**		-	-
VIII	**Profit before extraordinary items and tax (VI - VII)**		**39,532**	**6,532**
IX	**Extraordinary Items**		-	-
X	**Profit before tax (VIII - IX)**		**39,532**	**6,532**
XI	**Tax expense:**			
	(1) Current tax		14,896	4,398
	(2) Deferred tax		(2,867)	(1,206)
	(3) MAT Credit Entitlement		(1,073)	(32)
	(4) Current tax expenses relating to prior years		-	12
	Total Tax expense		**10,956**	**3,172**
XII	**Profit for the year from Continuing Operations (X-XI)**		**28,576**	**3,360**
XIII	**Profit / (Loss) from discontinuing operations**		-	-
XIV	**Tax expense of discontinuing operations**		-	-
XV	**Profit from discontinuing operations (after tax) (XIII - XIV)**		-	-
XVI	**Share of Loss of Minority Interest**		**109**	**743**
XVII	**Share of Profit of Associates**		**3,775**	**2,549**
XVIII	**Profit for the year (XII + XVI + XVII)**		**32,461**	**6,652**
XIX	**Earnings per equity share:**			
	(1) Basic (in Rupees)		**1.30**	**0.34**
	(2) Diluted (in Rupees)		**1.27**	**0.31**

TATA Capital Limited

NOTE "12"

(Rs. in Lakhs)

INVESTMENTS (at cost)	Ast at March 31, 2012		Ast at March 31, 2011	
	Non Current Investment	Current portion of Long-Term Investment	Non Current Investment	Current portion of Long Term Investment
LONG TERM INVESTMENTS				
Investment in Associates				
Unquoted :				
Investment in Equity Shares	28,096	-	24,065	-
Investment in Preference Shares	2,087	-	978	-
Investment in Venture Capital Units	4,867	-	3,382	-
Investment in Others				
Quoted :				
Investment in Equity Shares	30,757	-	30,758	-
Investment in Debentures	64,423	7,357	44,364	23,263
Investment in Government Securities	5,074	-	5,074	-
Unquoted :				
Investment in Equity Shares	8,814	2,039	21,128	-
Investment in Preference Shares	9,164	2,000	6,480	4,000
	67,010	1,320	41,965	39,825
	-	1,226	-	1,226
	-	-	1,776	-
	(7,118)	-	(5,530)	-
	213,176	13,942	174,440	68,314

28. The Group has investments in the following associates, which are accounted for on the Equity Method in accordance with the Accounting Standard 23 on 'Accounting for Investments in Associates in Consolidated Financial Statements' as notified by the Companies (Accounting Standards) Rules, 2006:

Name of the Company	Country of Incorporation	% Holding as at 31.03.2012	% Holding as at 31.03.2011
e-Nxt Financials Limited	India	40	40
Tata Autocomp Systems Limited*	India	24	24
Hemisphere Properties India Limited*	India	50	50
Precision Camshafts Limited*	India	26	26
Tata Capital Special Situation Fund	India	26.79	27.27
Tata Capital Health Care Fund	India	32.31	46.89
Tata Capital Innovation Fund	India	28.85	39.47
India Collections Management Private Limited*	India	40.50	40.50

* Consolidated based on unaudited financial statements as at/for the year ended March 31, 2012

T&T

TATA Capital Limited

The Financial statements of the following jointly controlled entities have been consolidated as per Accounting Standard 27 on 'Financial Reporting of Interests in Joint Ventures' as notified by the Companies (Accounting Standards) Rules, 2006.

Name of Jointly controlled Entity	% Holding as at 31.03.2012	% Holding as at 31.03.2011
Nectar Loyalty Management India Limited* (w.e.f 5th March 2012)	49	NA

Consolidated based on unaudited financial statements as at/for the year ended March 31, 2012
The following amounts are included in the Financial Statements in respect of the jointly controlled entity referred to in Note above, based on the proportionate consolidation method:

(Rs. in Lakhs)

PARTICULARS	As at March 31, 2012
Assets:	
Deposits	44
Advances Paid	21
Cash and Bank Balances	611
Duties & Taxes	57
Liabilities	
Sundry Creditors	42
Income	NIL
Expenses	
Purchase of data base license	545
Others	68

T&T

Ind AS and Consolidation

Consolidation Procedure

- Ind AS 103 Business Combinations
  - FV of Assets & Liabilities
  - Non-controlling Interests
  - Goodwill
  - Deferred Tax
- Ind AS 110 Consolidated Financial Statements
  - Line-by-line
  - Inter-company Elimination
  - FV Adjustment
  - Deferred Tax on FV Adjustment

Consolidation Procedure

- Ind AS 28 Investment in Associates & JV
  - Equity Method
  - FV of Assets & Liabilities
  - Goodwill
  - Inter-company Elimination
- Ind AS 111 Joint Arrangements
  - Joint Operations
  - Joint Ventures

T&T

Thank You!

CA. Anand Banka
anand.banka@talatiandtalati.com
Mob: 9867353743

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