Ind AS 110- Consolidated financial statements

Objective & Scope- Ind AS 110

Objective

- The objective of this Ind AS is to establishes principles for the presentation and preparation of **consolidated financial statements** when an entity **controls** one or more other entities.
- Defines the principle of ***control,*** and establishes control as the basis for consolidation
- Sets out the **accounting requirements** for the preparation of consolidated financial statements; and
- Defines an **investment entity** and sets out an exception to consolidating particular subsidiaries of an investment entity.

Scope

- A parent **need not** present **consolidated financial statements** if it meet all the following conditions:
  - It is a **wholly–owned subsidiary**; or a partially owned subsidiary whose owners have been informed and they have not objected for not presented CFS.
  - It **debt or equity instruments** are **not traded** in a public market

Objective & Scope-Ind AS 110

Scope

- It **did not file**, nor is it in the process of filing, its financial statements with a securities commission.
- Its **ultimate or any intermediate parent** produces CFS that are available for public use and comply with Ind AS

❑ This Ind AS does not apply to post-employment benefit plans or other long-term employee benefit plans to which **Ind AS 19, *Employee Benefit***, applies.

❑ A parent that is an **investment entity** shall not present consolidated financial statements if is required, in accordance with this Ind AS to measure all of its subsidiaries at **fair value through profit or loss**.

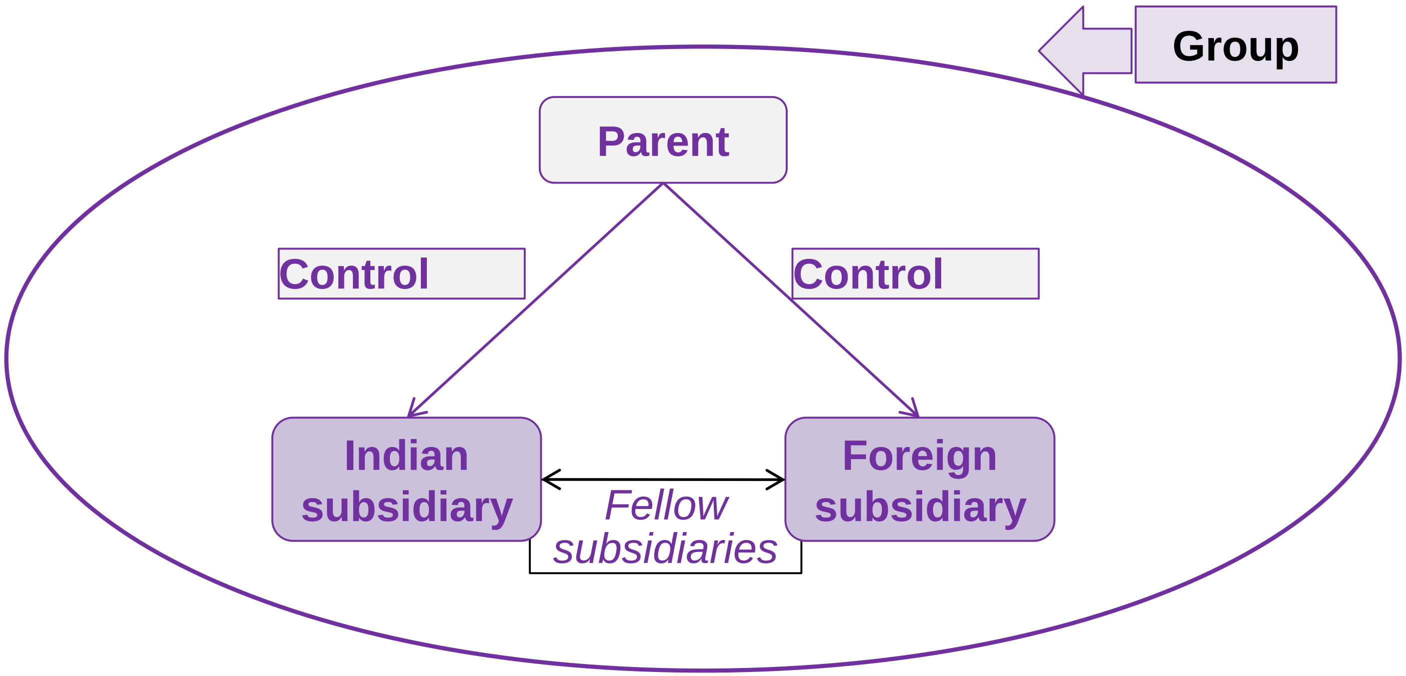
Objective & Scope- Ind AS 110

Ind AS 110 vs. AS 21

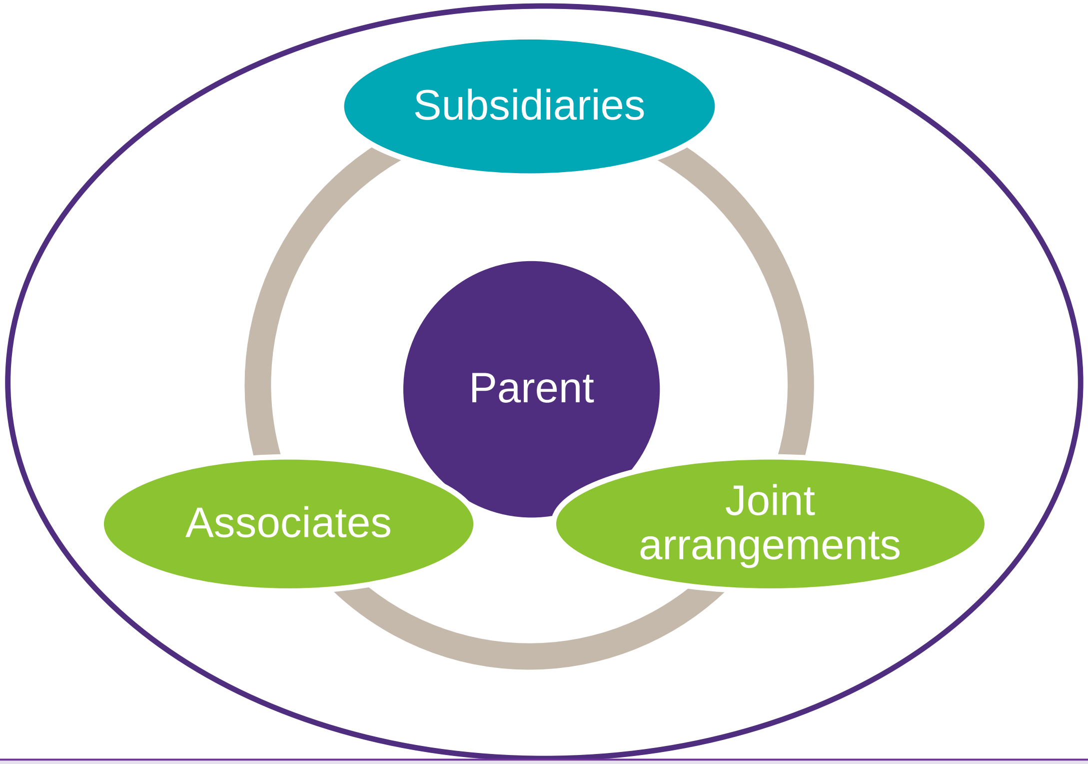
Control

AS 21- Consolidated Financial Statements	**Ind AS 110 - Consolidated Financial Statements**
✓ Control established if-Ownership and/or Composition of directors	✓ Control established if –**<u>Power+ exposure to variable returns+ use of power to affect returns</u>**
✓ No consolidation required if temporary control is established or if the subsidiary operates under severe and long term restrictions.	✓ No such exemption is there under Ind AS 110
✓ The definition of control is objective	✓ Substance preferred over form. Hence, use of judgement is required

What is a ‘group’?



What is a 'group'?

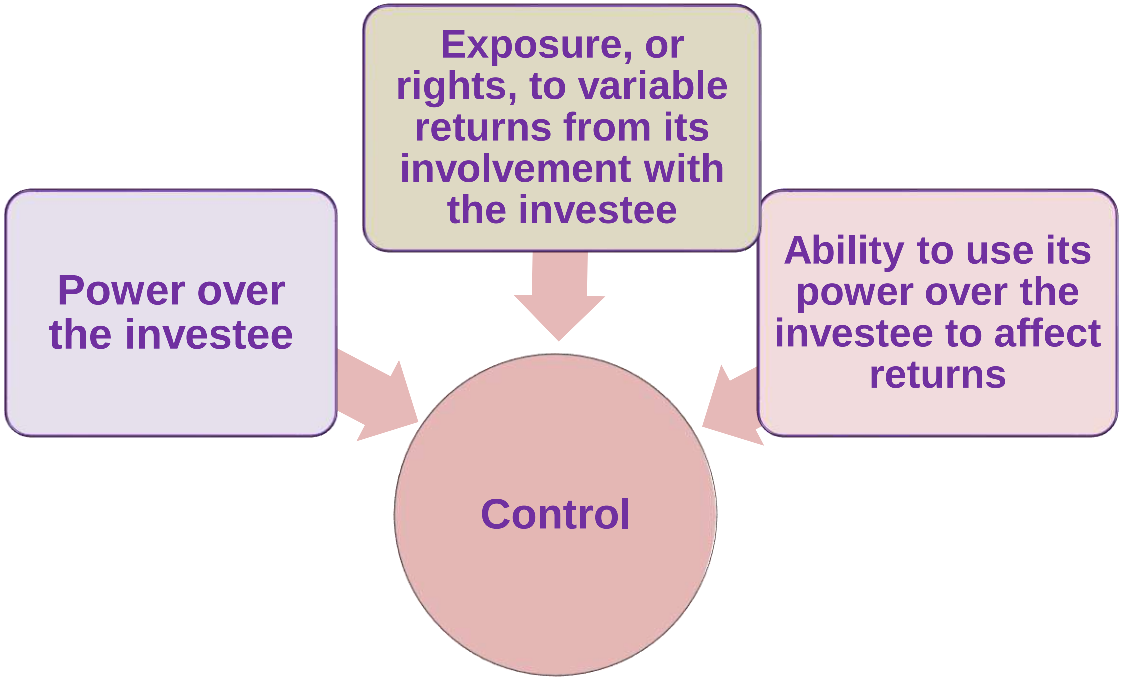


- **Section 129 (3):-**

  Where a company has **one or more subsidiaries**, it shall, in addition to financial statements provided under sub-section (*2*), **prepare a consolidated financial statement** of the **company and of all the subsidiaries** in the same form and manner as that of its own which shall also be laid before the annual general meeting of the company along with the laying of its financial statement under sub-section (*2*).

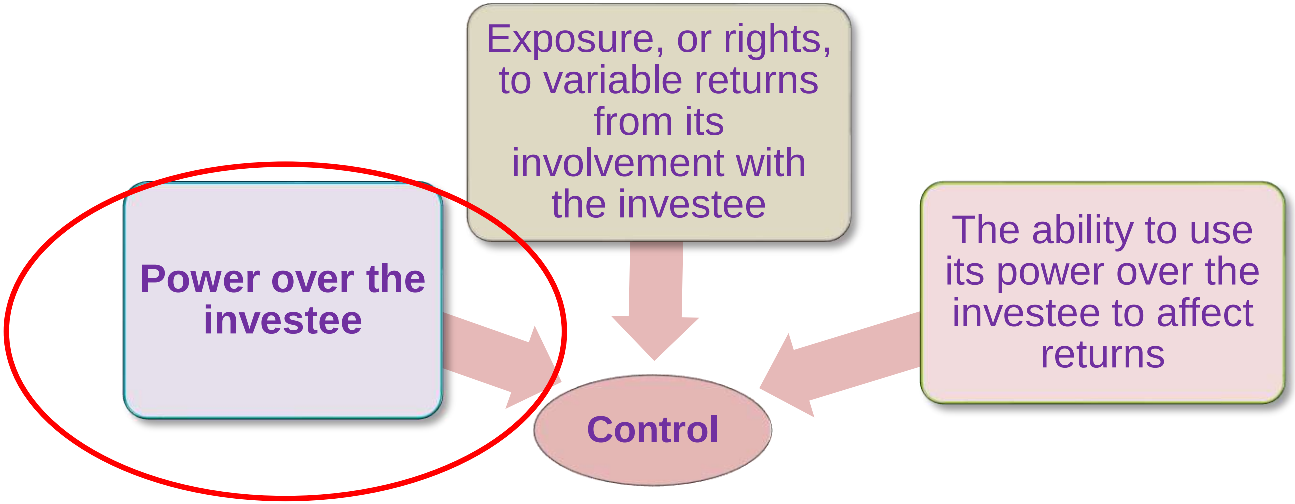
  Subsidiary:- For the purposes of this sub-section, the word "subsidiary" shall ***include associate company and joint venture.***

Definition of control



All three elements of control **must** be present to conclude that an investor controls an investee

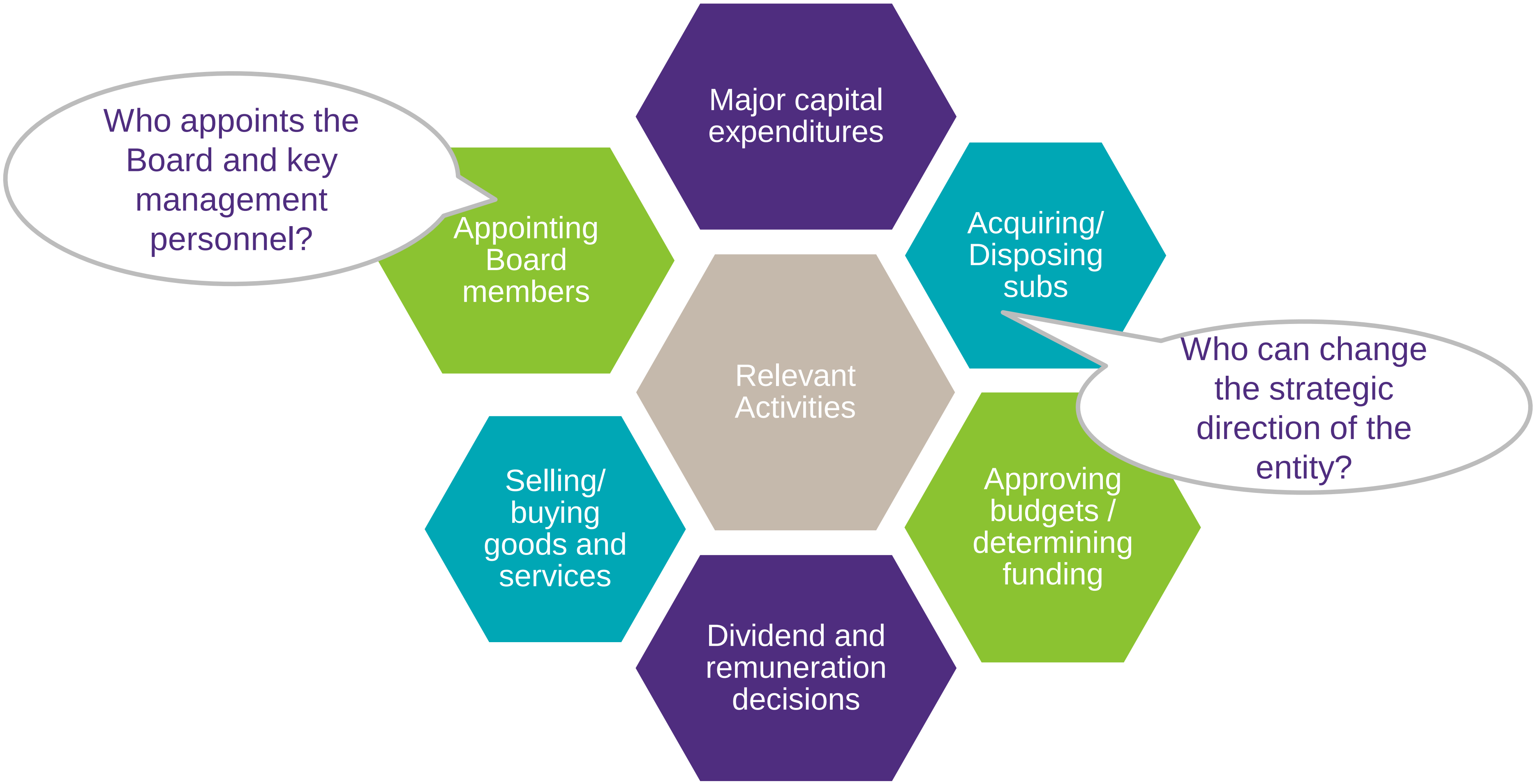
Applying the control model - focus on 'power'



Power = **Existing rights** that give the **current ability** to direct the ***relevant activities***

- **Power arises from rights.** Examples:- Voting power from equity holding; Contractual agreement that signifies power
- **Substantive rights** mean power but protective rights do not.
- **In case of multiple investors,** the investor(s) whose current ability to direct the activities most significantly affects the returns of the investee, shall mean to have power over the investee.

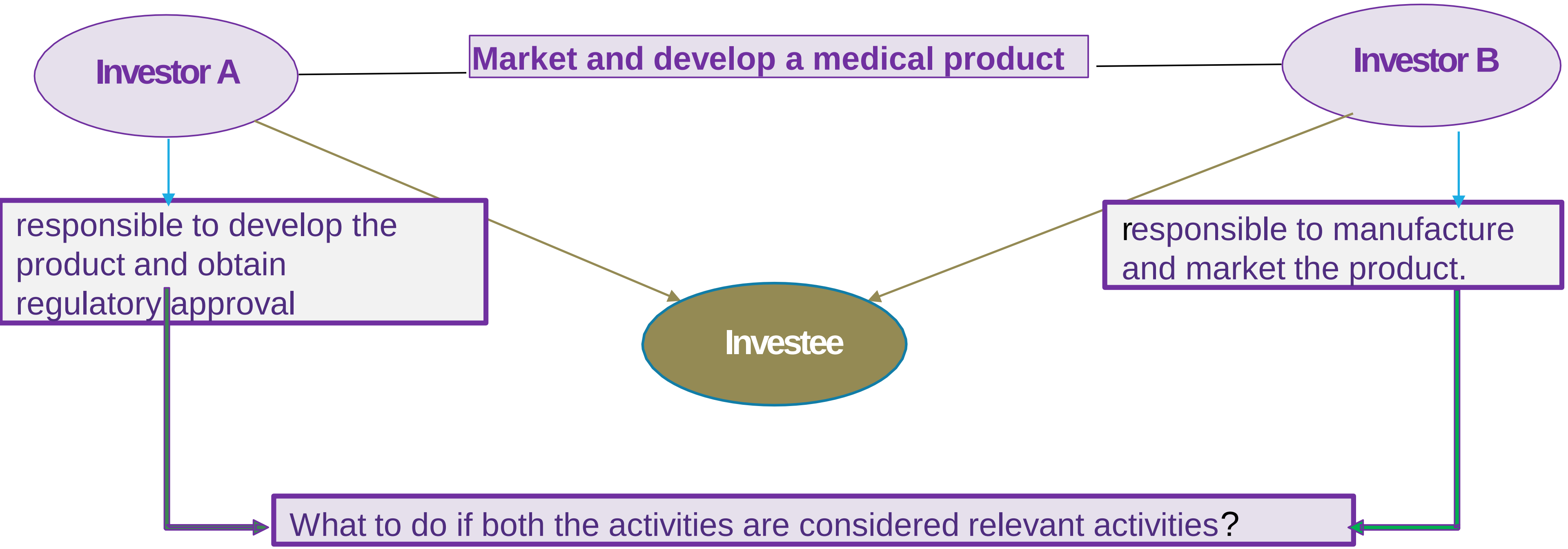
Identifying relevant activities



Relevant activities are those activities that **significantly** affect the **investee's return.**

Relevant Activity-Example

Relevant Activity



Giving consideration to the purpose and design of the investee, it would be required to figure out which **activity most significantly affect the returns** of the investee and whether the investor has the ability to direct that activity.

Rights of an investor-power over an investee

Rights of an investor- resulting in power

Examples/Factors of such rights

- Voting rights-*refer next slide*

- Rights to appoint, reassign or remove members of an investee's KMP who have ability to direct relevant activities
- Other rights that give holder the ability to direct relevant activities

- Eg. decision-making rights specified in a management contract.

- Rights to appoint or remove another entity that directs the relevant activities

- Rights to direct the investee to enter into, or veto any changes to, transactions for the benefit of the investor

Power

Indicators of such rights are:

- The investee **depends on the investor to fund a significant portion** of its operations.

- The investor **guarantees** a significant portion of the investee's obligations.
- The investee **depends** on the investor for critical services, technology, supplies or raw materials
- The investor **controls** assets such as licences or trademarks that are critical to the investee's operations

- The investee **depends** on the investor for **key management personnel**, such as when the investor's personnel have specialised knowledge of the investee's operations.
- The investee's **key management personnel** who have the ability to direct the relevant activities are current or previous employees of the investor.

- A significant portion of the investee's activities either involve or are conducted on
- behalf of the investor.

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Rights of an investor-Voting rights

Voting Rights- Results in Power

Power

Power with majority of voting rights

- Holders voting rights should be ***more than one-half*** of the investee resulting in power of directing the relevant activities
- The rights should be **substantive-** *please refer next slide*
- Must give the holder the ability to direct relevant activities mostly by financial and operating ways
- Also, the power may be establised even by appointing majority of governing body that direct the relevant activities.

Power without majority of voting rights

- **Contractual arrangement** between investor and vote holders- enabling the investor to make decisions about relevant activities
- **Rights from other contractual arrangements** having decision making rights coupled with voting rights giving sufficient ability to the investor to direct relevant activities
- Investor's voting rights- *Refer next slide*
- Potential voting rights in combination with voting rights (but not majority of it)
- Combination of the above

Investor's voting rights

•Facts and circumstances may be considered to determine whether investor's voting rights suffice power or not:

•Size and dispersion of voting rights of the investor *vis a vis* other holders. The following represent more ability on the part of investors to direct relevant activities:

- •More voting rights (absolute basis)
- •More voting rights in relation to other vote holders (relative basis)
- •More parties required to act together to outvote the investor

•Potential voting rights held by other vote holders

•Rights arising from other contractual arrangements- the existence of such rights are important, whether exercised or not

•Additional facts and circumstances- indicating the current ability to direct relevant activities

Less than majority voting power

+

practical ability to direct relevant activities *unilaterally*

I**f the above joint criteria are non-conclusive, then the following additional facts and circumstances are seen**:

•If **shareholdings are widely dispersed**- direction of relevant activity decided by majority votes- investor holds significantly more voting rights than others- then power is established.

•If the above factors are not conclusive, then attention can be drawn to **additional facts** and circumstances including passive nature of shareholders as demonstrated by earlier shareholders meetings. Also, the majority of voting powers with the investor, lesser number of parties required to outvote the investor, shall give more weight to the decision making of power.

Still, if it cannot be said conclusively that investor has power, then it can be concluded that control is not there

Investor's voting rights-Example

Q:

Investor A holds 48% of the voting rights of an investee (Investee B). The remaining voting rights are held by thousands of other shareholders, none individually holding more than 1% of the voting rights. None of the shareholders has any arrangements to consult with any other shareholders or make collective decisions. Relevant activities are directed by a simple majority vote.

A:

In this case, on the basis of the absolute size of its holding and the relative size of the other shareholdings, the investor may conclude that it has a **sufficiently dominant voting interest** to meet the power criterion without the need to consider any other evidence of power.

While other facts and circumstances should or may always be considered; in this case, other facts and circumstances (including voting behaviour of other shareholders) is unnecessary, but not precluded.

Rights-Substantive vs. Protective

- **Substantive Rights**

- **Protective Rights**

Power

- Substantive rights mean that the holder has practical ability to exercise the right.
- Mostly the rights need to be currently exercisable with some exceptions.
- **Barriers in rights being substantive:**
- financial penalty
- legal barrier
- operational barrier
- terms and conditions preventing holder from exercising the right.
- Rights exercisable by more than one party as per the agreement.
- holders do not benefit from the exercise of the rights.

- Rights given with the intent to protect the interest of the holders, not to give power to them.
- Generally exercisable in exceptional circumstances or to make fundamental changes to the activities.
- .**Examples include:**
  - lender's right to restrict a borrower from undertaking activities that could significantly change the credit risk of the borrower to the detriment of the lender
  - the right of a lender to seize the assets of a borrower if the borrower fails to meet specified loan repayment conditions.
  - approve the capital expenditure budget

Special Case-Franchise

Franchisor

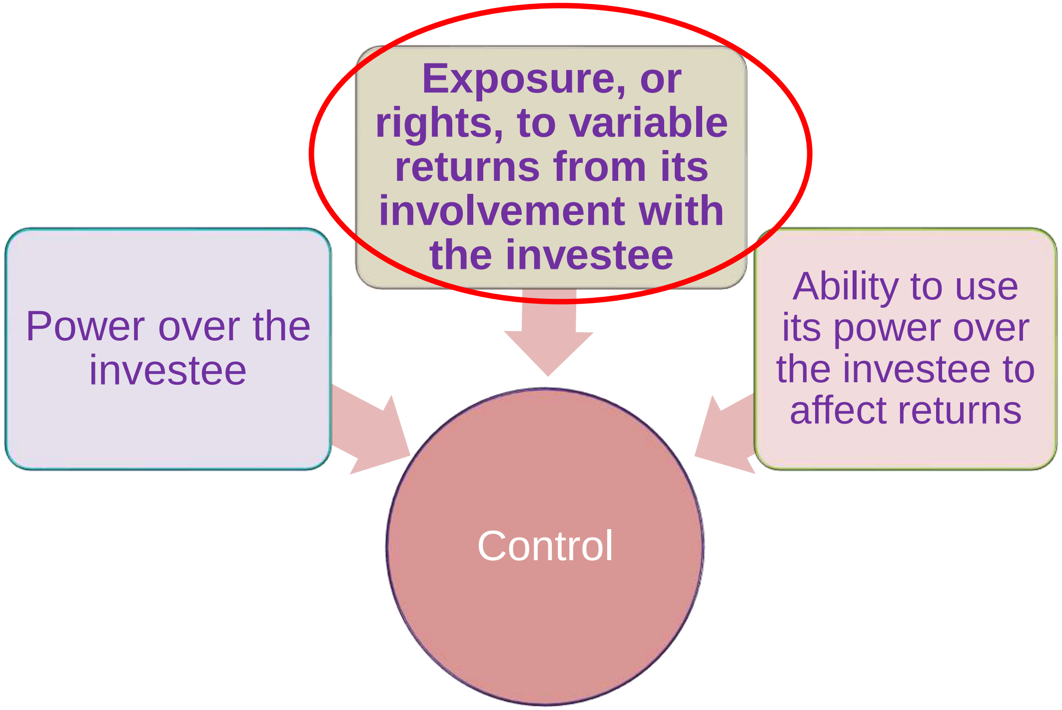
Franchise business

Franchisee

- Rights given to franchisor are generally **protective** in nature with some decision making rights.
- There are other parties who can have rights to affect investee's returns. It is also possible that franchisor does not have the ability to direct relevant activities.
- It would be necessary to distinguish between having ability to make decisions that significantly affect the franchisee's returns and one that protects the franchise brand.

- By entering into the franchise agreement the franchisee has made a **unilateral decision** to operate its business in accordance with the terms of the franchise agreement, but for its own account

Applying the control model - exposure or rights to variable returns



- Returns that are not fixed and vary as a result of the performance of the investee.
- Can be positive only, negative only, both positive and negative.

Variable returns

What are variable returns

Variable returns are **returns** that are **not fixed** and have the potential to vary as a **result** of the performance of an **investee**. Variable returns can be **only positive**, **only negative** or both **positive and negative**.

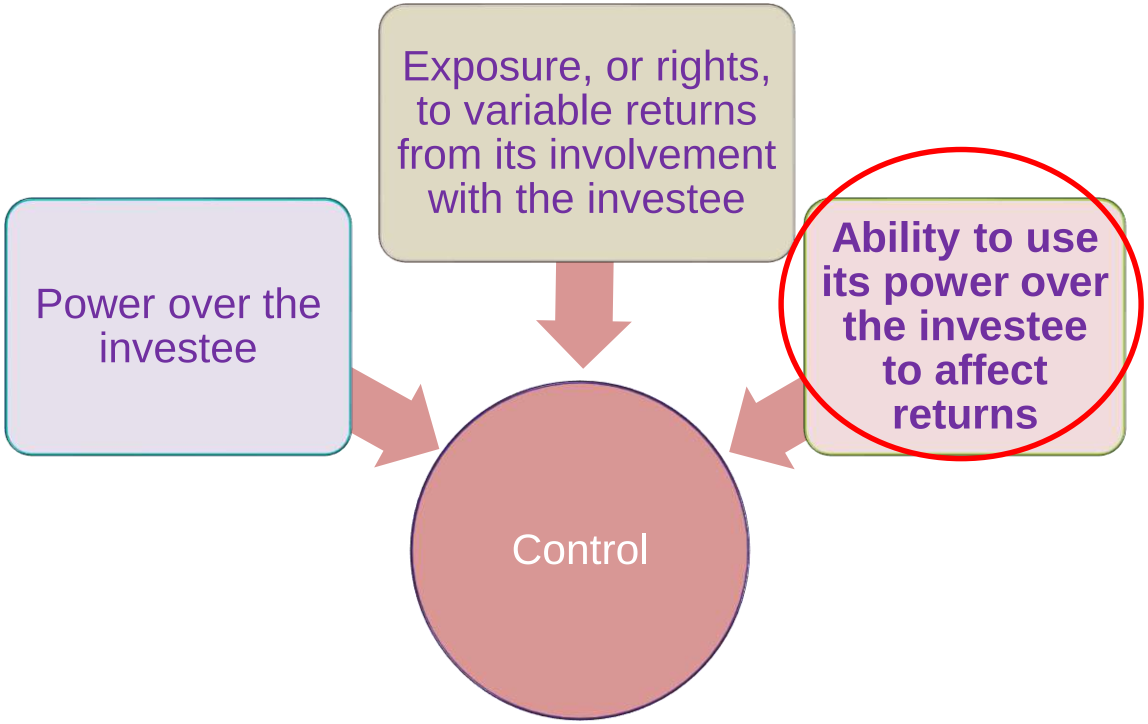
Substance over form

- Ex: Fixed interest payments on bonds are variable for Ind AS as they are subject to the default risk of borrower and credit risk of issuer.
- Ex: Fixed performance fees for managing investee's assets are variable as it exposes the investor to the performance risk of investee.

Examples of Returns

- **Dividends**, interest, changes in value of investment in the investee
- **Servicing fee** of asset/ liability, fee/ loss for credit or liquidity support, residual interest in investee's asset on liquidation, tax benefits etc.
- **Returns not available to other interest holders**. For example, using investors' assets in combination with the asset of the investee to obtain cost cutting, economies of scale.

Applying the control model - ability to use its power over the investee to affect returns



- The investor should have the **ability to use its power** to affect investor's returns from its involvement with the investee.

Applying the control model - Principal vs. agent considerations

A decision maker should assess following:

Whether it is a "principal" or "agent"

An agent acts on behalf and for the benefit of other parties

A principal shall treat the decision making rights given to the agent as held by him directly.

A **decision maker** shall evaluate the following factors:

- ✓ the scope of its decision-making authority over the investee
- ✓ the rights held by other parties
- ✓ the remuneration to which it is entitled in accordance with the remuneration agreement
- ✓ exposure to variability of returns from other interests that it holds in the investee

Applying the control model-Principal vs. agent considerations

Scope of decision making authority:

For this it is required to consider:

-Permitted activities according to agreement and law

- Discretion made when making decision about those activities

-Purpose and design of investee, risks retained, risks passed on, level of involvement of the decision maker.

Rights held by other parties:

Factors affecting are:

- Substantive rights held by other parties/removal of substantive rights

-When a single party, holding substantial removal rights, can remove a decision maker, without cause, in isolation proves that the decision maker is an agent

-Rights exercised by investee's board of directors and its effect on the decision maker

Exposure to variability of returns from other interests:

Such variability may be from interests like guarantee for investee's performance. It is generally suggestive of a principal.
The decision maker shall evaluate its exposure relative to the total variability of returns of the investee. The following should be considered:

- Magnitude and variability of its economic interests considering its remuneration and other interests.
-whether exposure to variability of returns is different from other investors and, if so, whether this might influence its actions.

Remuneration:

-The **greater the magnitude** and variability of the decision maker's remuneration relative to investee's returns, the more likely that the is a principal

- The following should also consider to determine whether he an agent or principal

* Remuneration commensurate with services provided

*Agreement contains customary terms & conditions and the amount is at arm's length

Relationship with other parties-De facto Agent

The determination of whether other parties are acting as **de facto agents** (acting on investor's behalf) requires judgement considering **not only** the **nature of the relationship** but also how those **parties interact with each other** and the investor. Such a relationship **need not involve a contractual arrangement.**

Examples of other parties that by their very nature might act as de facto agents

- **Investor's related parties**
- **Party that received interest in the investee as a contribution or loan from the investee**
- **Party that agreed not to sell its interest in the investee without the investor's prior approval**
- **Party that cannot finance without subordinated financial support from the investor**
- **Party that has a close business relationship with the investor**

Investment entity-its consolidation

What are the criteria of an Investment entity?

- Obtain funds from investors for providing them with investment management services.
- Business purpose- returns from capital appreciation or investment income (dividend, interest, rental income) or both
- Performance evaluation and measurement of investments on fair value basis

Characteristics of an investment entity

- More than one investment
- More than one investor
- Investors are not related parties
- Ownership in the form of equity or similar instrument

Investment entity- its consolidation

- If the investment entity has a **<u>subsidiary that is not itself an investment entity</u>** and whose main purpose and activities are providing services that relate to the investment entity's investment activities. then it needs to be consolidated as per Ind AS 110 and apply Ind AS 103 wherever applicable. All other investments by investment entities need to be valued at fair value through profit or loss as per Ind AS 109.

- In case facts and circumstances change, then it shall be re assessed whether the entity is still an investment entity or whether it has now become an investment entity. This change shall be accounted for on a prospective basis.

- **<u>Investment related services include</u>** investment advisory services, investment management, investment support and management services.

- Investment entity does not intend to hold the assets indefinitely. It must have an exit plan in place for its equity and debt instruments.

- An investment entity measures and evaluates its investment performance in terms of fair value as it portrays more relevant information.

Financial statements prepared by parent

Separate financial statements

- investments accounted for at:
  - cost, or
  - in accordance with Ind AS 109

Consolidated financial statements

- financial statements of a group
- parent and subsidiaries presented as a single economic entity

Components of consolidated financial statements

- consolidated statement of financial position
- consolidated statement of profit or loss and other comprehensive income
- consolidated statement of changes in equity
- consolidated statement of cash flows
- notes comprising significant accounting policies and other explanatory information

Features of consolidated financial statements

- Single economic entity
- Uniform accounting policies
- Elimination of intra-group balances
- Elimination of intra-group transactions
- Elimination of unrealised profits
- Same year ends

Different reporting date of subsidiary

- Prepare special statements of subsidiary as at the same date as the group
- If impracticable, use financial statements of subsidiary subject to:
    - difference ≤ 3 months
    - adjustments for effects of significant transactions/ events between these dates

Accounting requirements

Separate financial statements of parent

Cost of investment

Replaced with

Consolidated financial statements

- net assets of subsidiary at fair value
- post acquisition reserves
- goodwill/ gain on bargain purchase

Consolidation procedures	• Line by line addition of assets and liabilities, intercompany elimination, translation of foreign operations
Uniform accounting policies	• Accounting policies of all entities consolidated need to be harmonised
Profit / loss allocation	• Profit/loss allocation is between controlling and non-controlling interest is based on actual share ownership
Non-controlling interest (NCI)	• NCI is shown separately within equity • Loss is allocated even if NCI balance is negative

Accounting requirements

	Separate statement of financial position				Consolidated statement of financial position
	Parent		**Subsidiary**		**Consolidated**
Net assets	Xxx	+	xxx	+ consolidation adjustments	Total xxx
Issued capital	Xxx		xxx		Only parent's Capital
Reserves	Xxx		xxx		to be calculated

Accounting requirements

	Separate Profit and loss Account			Consolidated Profit and loss Account
	Parent	**Subsidiary**		**Consolidated**
Revenue [Parent + Subsidiary (100%) – intra-group items]	XXX	XXX	+ Consolidation adjustments	XXX
↓				↓
Profit for the period (CONTROL)	XXX	XXX		XXX
Owners (equity holders) of the parent				XXX
NCI % of subsidiary's profit after tax				XXX

Intra-group transactions and balances in Balance sheet

Intra-group balances → Eliminated on consolidation

For elimination, direction of transaction is irrelevant

Intra-group transaction → leads to Unrealised profit → Eliminated on consolidation

Sale of goods by parent to subsidiary
- Reduce consolidated RE
- Reduce inventory

Sale of goods by subsidiary to parent
- Reduce net assets of subsidiary
- Reduce inventory

Loss of control

If a parent loses control of a subsidiary, the parent :

- Derecognise s the assets (including goodwill) and liabilities of the former subsidiary from the consolidated balance sheet.
- Recognises any investment retained in the former subsidiary at its fair value in accordance with Ind AS 109, or when appropriate the cost on initial recognition in an associate or joint venture.
- Recognise the gain or loss associated with the loss of control attributable to the former controlling interest.

Loss of control- Example

- A parent sells an 85% interest in a wholly owned subsidiary. The relevant details are as follows:
- After the sale, the parent, accounts for its remaining 15% interest as an FVTOCI investment (Ind AS 109).
- The subsidiary did not recognise any amounts in other comprehensive income
  Net assets of the subsidiary before the disposal are INR 5,000
  Cash proceeds from the sale of the 85% interests are INR 7,500, and
  The fair value of the 15% interest retained by the parent is INR 1,300

The parent accounts for the disposal of an 85% interest as follows:

Debit FVTOCI investments	INR 1,300
Debit Bank	INR 7,500
Credit Net assets of subsidiary derecognised	INR 5,000
Gain on loss of control of subsidiary	INR 3,800

Joint Arrangements-Ind As 111

Objective & Scope- Ind AS 111

Objective

- The objective of this Ind AS is to establishes principles **for financial reporting** by entities that have an interest in arrangements that are controlled jointly (i.e., *joint arrangements*).

- This Ind AS defines **joint control** and requires an entity that is a *party to a joint arrangement* to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

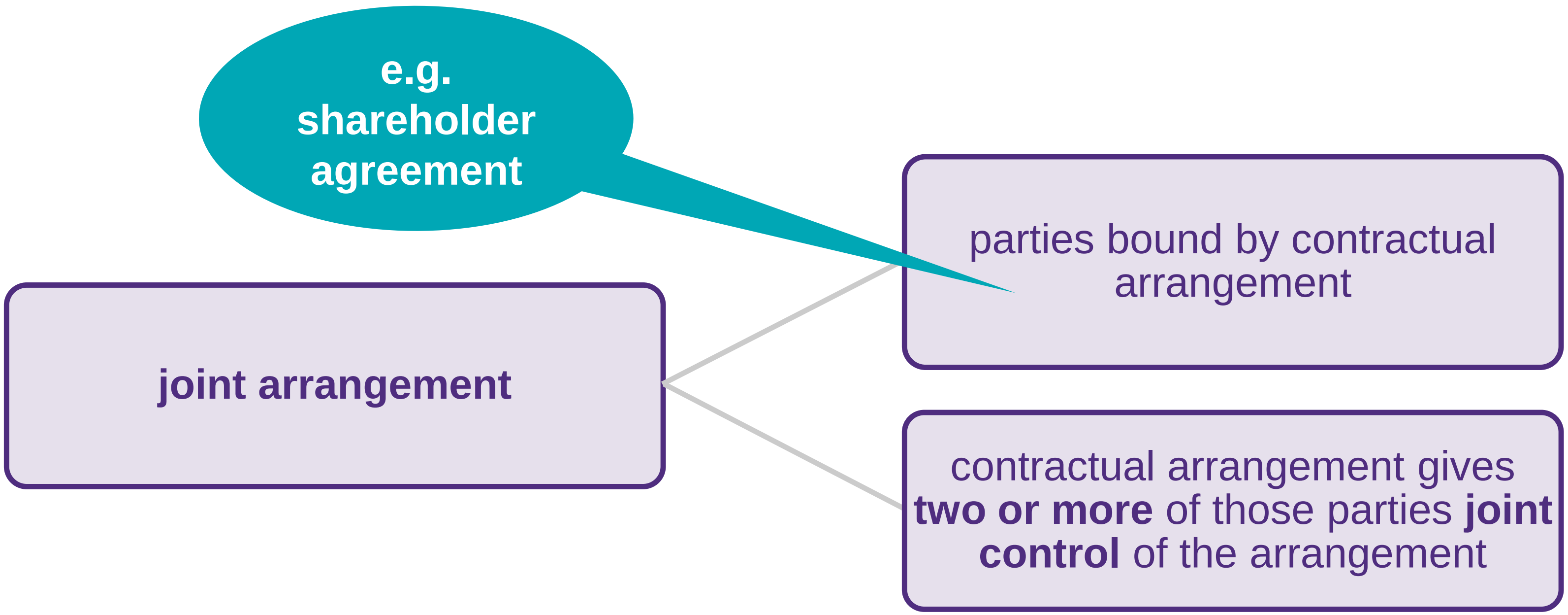
Scope

- This Ind AS shall be applied by all entities that are a **party to a joint arrangement.**

Ind AS 111 definitions and terminology

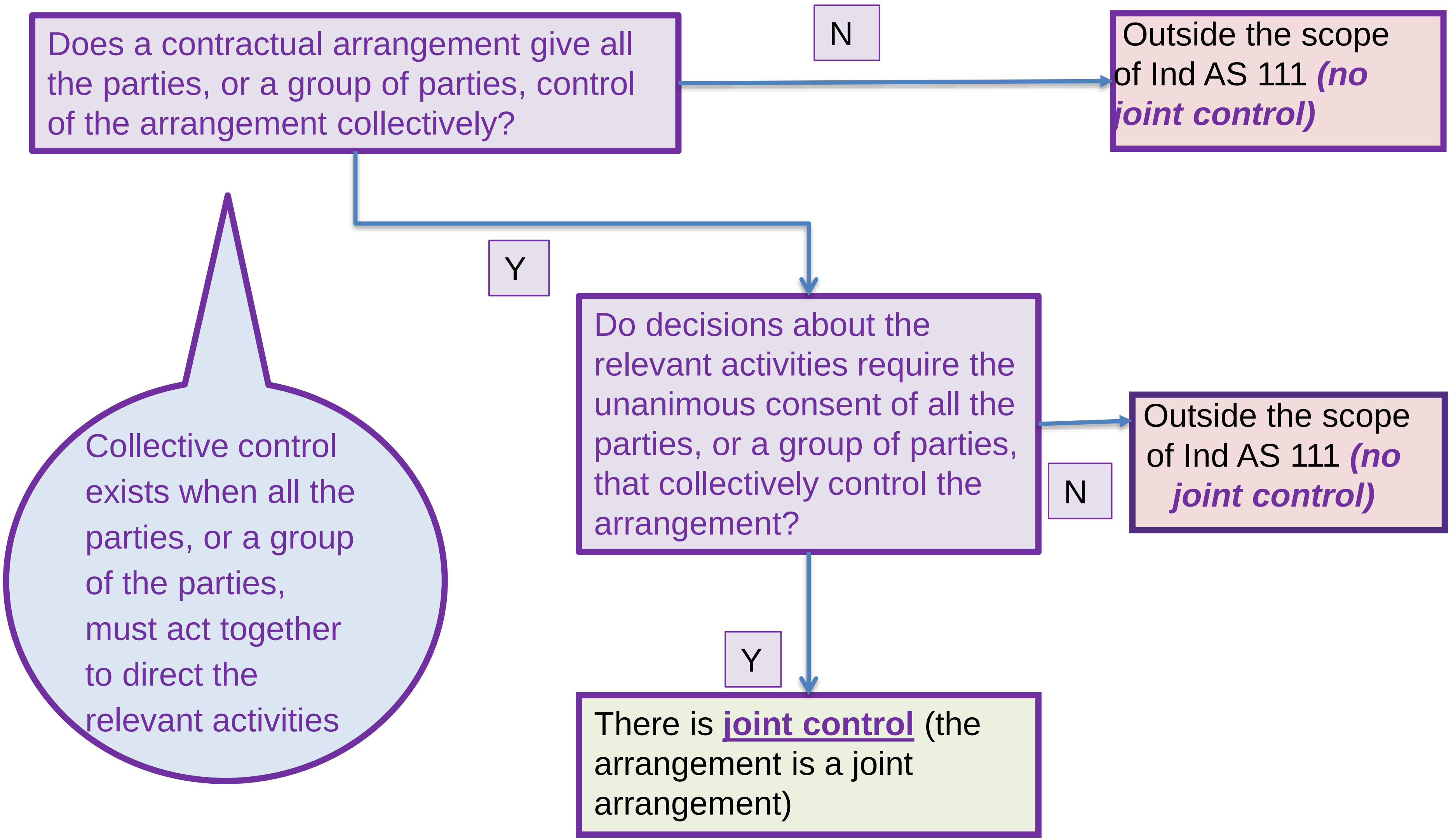
Joint arrangement	• An arrangement of which **two or more parties** have **joint control**
Joint control	• The **contractually** agreed sharing of control of an arrangement, which exists only when decisions about the **relevant activities** require the **unanimous consent** of the parties sharing control
A party to a joint arrangement	• An entity that participates in a joint arrangement, regardless of whether that entity has joint control of the arrangement
Collective control	• When **all the parties, or a group of the parties**, must act together to **direct** the activities that significantly affect the returns of the arrangement (i.e. the **relevant activities**)

Characteristics of a joint arrangement



A joint arrangement is either a ***joint operation or a joint venture.***

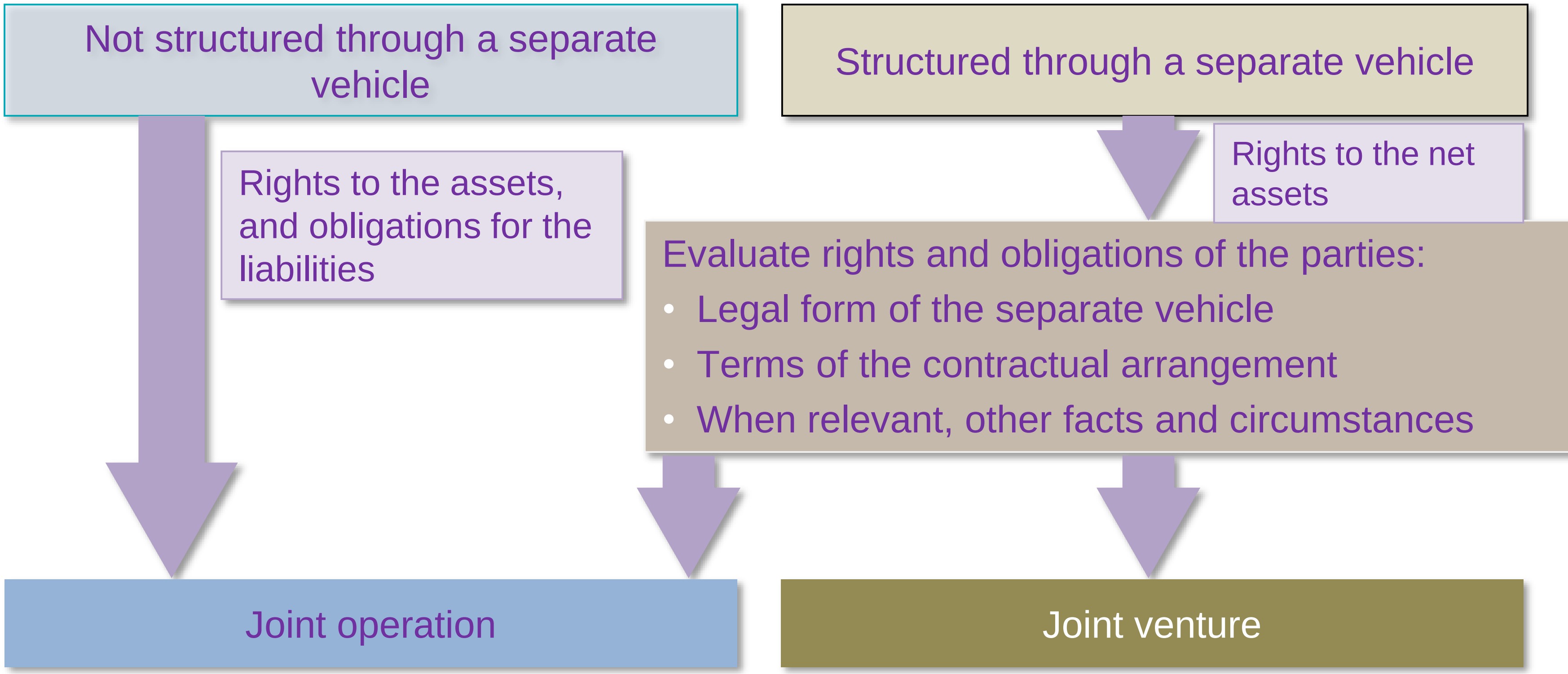
Joint control?



Definitions continued…

Joint operation	A **joint arrangement** whereby the parties that have joint control of the arrangement have **rights to the assets, and obligations for the liabilities,** relating to the arrangement
Joint venture	A **joint arrangement** whereby the parties that have joint control of the arrangement have **rights to the net assets** of the arrangement

Classification of a joint arrangement



Joint Arrangement vs. Joint Venture

- Arrangements structured through a **separate vehicle** will normally (but not always) be a **joint venture** which must be **equity accounted.**

- The **mechanics** of accounting for a **joint operation** may not always be the same as proportionate consolidation

- The rights and obligations agreed to by the parties in their contractual arrangements are consistent or do not conflict, with the rights and obligations conferred on the parties by the legal form of the separate vehicle in which the arrangements has been structured.

- **Example**

Each party has a 50% ownership interest in the incorporate entity. In such a case the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle indicates that the parties have rights to the net assets of the arrangements. However, the parties **modify the features** of the corporation through their contractual arrangement so that each has an interest in the assets of the incorporated entity and each is liable for the liabilities of the incorporation entity in a specified proportion. Such contractual modifications to the features of a corporation can cause an arrangement to be a **joint operation**

Financial Statement (FS) of a joint operator

FS of a joint operator

- Its **revenue** from the sale of its share of the output arising from the joint operation
- Its **liabilities,** including its share of any liabilities incurred jointly
- Its share of the revenue from the sale of the output by the joint operation
- Its **assets**, including its share of any assets held jointly
- Its **expenses**, including its share of any expenses incurred jointly

Financial Statement of joint venture

Consolidation

Joint Venture	Equity method of accounting	Ind AS 28

- A party that participates in, but not have joint control of, a joint venture shall account for its interest in the arrangement in accordance with **Ind AS 109, *Financial Instruments*** **u**nless it has significant influence over the joint venture, in which case it shall account for in **accordance with Ind AS 28**.

Investment in Associates & Joint Ventures- Ind AS 28

Investments in Associates and Joint Ventures

Ind AS 28 states that there is presumption that the investor has **significant influence** over the entity where it holds, directly or indirectly (e.g., though subsidiaries, 20% or more of the voting rights , unless it can clearly demonstrated that it is not the case.

Ind AS 28, Investments in Associates and Joint Ventures

Conversely, if an investor holds, directly or indirectly, less than 20% of the voting rights, significant influence cannot be presumed unless it can be clearly demonstrated that it is not the case.

- The existence and effect of **potential voting rights** that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether an entity has significant influence.

Significant influence

Significant influence is the power to participate in the operating and financial policy decisions of the entity but has no control over those policies

- participation in policy-making decisions
- representation on the board of directors
- Interchange of material personnel
- material transactions between the investor and the investee
- provision of essential technical information

Significant influence-Examples

Example 1

Holding company and its subsidiaries hold 9% and 23% respectively in the investee (associate). Holding Company prepares CFS, but the Subsidiary does not. Subsidiary accounts for its investment in associate in accordance with Ind AS 27 Separate Financial Statements. Holding Company would consolidate subsidiary, eliminate investments that are accounted for as per Ind AS 27, and apply the equity method of accounting to the entire 32% stake.

Example 2

Holding Company and its Subsidiary hold 9% ad 15% respectively in the investee (associate). Both Holding company and the Subsidiary prepare CFS. Subsidiary does not apply the equity method to the associate, since its own investment is less than 20%. Rather , the subsidiary will account for investments in accordance with Ind AS 109 Financial Instruments. Holding company would eliminate investments that are accounted for as per Ind AS 109, and apply the equity method to the entire 24%.

Equity method of accounting

No line-by-line consolidation

Consolidated balance sheet - Single line **share of net assets in Associate/ JV**

Consolidated statement of comprehensive income - Single line **share of profits (after tax)**

- Under the **equity method, on initial recognition** :

➡ The investment in an associate or a joint venture is recognised at **cost**

➡ The carrying amount is increased or decreased to recognise the investor's share of profit or loss of the investee **after the date of acquisition**.

➡ The investor's share of investee's **profit or loss** is recognised in the investor's profit or loss.

➡ **Distributions** received from an investee **reduce** the carrying amount of the investment

➡ **Adjustments** to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's **other comprehensive income.**

Equity method of accounting

- Such changes include those arising from the **revaluation of property, plant and equipment and foreign exchange translate differences.**

- The investor's share of those changes is recognised in the investor's **other comprehensive income** (Ind AS 1, Presentation of Financial Statements).

- If an entity's ownership interest in an associate or a joint venture is **reduced**, but the **continues** to apply the **equity method**, the entity shall **reclassify to profit or loss the proportion of the gain or loss** that had previously been **recognised in other comprehensive income** relating to that reduction in ownership interest if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

Discontinuing the use of equity method of accounting

An entity shall discontinue the use of the equity method from the date when its investment **ceases** to be an associate or a joint venture as follows:

If the **retained interest** in the former associate or joint venture is a **financial asset**, the entity shall measure the retained interest at fair value. The fair value of the retained interest shall be regarded as its fair value on initial recognition as a financial asset in accordance with Ind AS 109.

The entity shall recognize in profit or loss any difference between:

- the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture; and
- the carrying amount of the investment at the date the equity method was discontinued

If the investment becomes a **subsidiary**, the entity shall account for its investment in accordance with Ind AS 103, Business Combinations, and Ind AS 110, Consolidated Financial Statements.

Discontinuing the use of equity method of accounting

- When an entity **discontinues** the use of equity method the entity shall account for all amounts previously recognised in other comprehensive income in relation to that investment on the same basis as would have been required if the investee had disposed of the related assets or liabilities.

- Gain or loss previously recognised in **other comprehensive income** by the investee would be **reclassified to profit or loss** on the disposal of the related assets or liabilities, the entity reclassifies the gain or loss from equity to profit or loss as ***(reclassification adjustment)*** when the equity method is discontinued.

Exemptions to equity accounting

- The entity is a **wholly-owned subsidiary**, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not applying the equity method
- The **ultimate or any intermediate parent** of the entity produces financial statements available for public use that comply with Ind ASs, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with Ind AS 110
- The entity's **debt or equity** instruments are **not traded in a public market** (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).
- The entity **did not file, nor is it in the process of filing**, its financial statements with a securities commission or other regulatory organization, for the purpose of issuing any class of instruments in a public market.
- When the investment in an associate or a joint venture is held by, or is held **indirectly through, an entity that is a venture capital organisation etc.**, the entity may elect to measure that investment at fair value through profit or loss in accordance with Ind AS 109.

Exemptions to equity accounting

- When an entity has an investment in an associate, a portion of which is held **indirectly through a venture capital Organisation** etc. the entity may elect to measure that portion of the investment in an associate **at fair value through profit or loss** in accordance with Ind AS 109 regardless of whether the venture capital Organisation has significant influence over that portion of the investment. If the entity makes that election, the entity shall apply the equity method to any remaining portion of its investment in an associate that is not held through a venture capital Organisation.

Inter-company items

Inter-company balances	Inter-company transactions
• No elimination	• Dividend- eliminated • Others- no elimination

Unrealized profit → Eliminated to extent of investor's interest

Upstream transactions- Sale of assets from an associate to the investor

Downstream transactions- Sale of assets from an investor to associate

Downstream transactions- Evidence of reduction in the NRV of the assets to be sold, an impairment loss of those assets shall be recognised in **full by the investor.**

Upstream transactions- Evidence of a reduction in the NRV of the assets to be purchased, an impairment loss of those assets , the investor shall recognised **its share** in those losses.

- Thank You
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