

Exposure Draft

Accounting Standard for Local Bodies (ASLB) 34

Separate Financial Statements

(Based on corresponding IPSAS 34)

(Last date of comments: December 12, 2019)



Issued by

The Committee on Public and Government Financial
Management

The Institute of Chartered Accountants of India

New Delhi

Exposure Draft
Accounting Standard for Local Bodies (ASLB) 34, 'Separate Financial Statements'

CONTENTS

	Paragraphs
Objective.....	1
Scope.....	2-5
Definitions	6-10
Preparation of Separate Financial Statements	11-18
Disclosure.....	19-23

Appendix 1 Comparison with IPSAS 34, 'Separate Financial Statements'

Exposure Draft
Accounting Standard for Local Bodies (ASLB) 34
Separate Financial Statements

Invitation to Comment

The Committee on Public and Government Financial Management of the Institute of Chartered Accountants of India invites comments on any aspect of this Exposure Draft of Accounting Standard for Local Bodies (ASLB) 34, 'Separate Financial Statements'. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments should be submitted in writing to the Secretary, Committee on Public and Government Financial Management, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002, so as to be received not later than December 12, 2019. Comments can also be sent by e-mail at caslb@icai.in and cpf.aslb@icai.in

Draft
Accounting Standard for Local Bodies 34
Separate Financial Statements

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the 'Preface to Accounting Standards for Local Bodies'¹.)*

The Accounting Standards for Local Bodies (ASLB) 34, 'Separate Financial Statements', issued by the Council of the Institute of the Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the Local Bodies. This Standard will be mandatory for local bodies in a State from the date specified in this regard by the State Government concerned².

The following is the text of the Accounting Standards for Local Bodies:

Objective

1. The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

¹ Attention is specifically drawn to paragraph 4.2 of the 'Preface to Accounting Standards for Local Bodies', according to which Accounting Standards are intended to apply only to items which are material.

² Reference may be made to the paragraph 7.1 of the 'Preface to Accounting Standards for Local Bodies' providing the discussion on the compliance with the Accounting Standards for Local Bodies.

Scope

2. ***An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for investments in controlled entities, joint ventures and associates when it elects, or is required by regulations, to present separate financial statements.***
- 2A. ***This Standard applies to all entities described as Local Bodies in the ‘Preface to the Accounting Standards for Local Bodies’³.***
3. This Standard does not mandate which entities produce separate financial statements. It applies when an entity prepares separate financial statements that comply with Accounting Standards for Local Bodies (ASLBs).
4. [Deleted]
5. [Deleted]

Definitions

6. ***The following terms are used in this Standard with the meanings specified:***

Consolidated financial statements are the financial statements of an economic entity in which the asset, liabilities, net assets/equity, revenue, expenses and cash flows of the controlling entity and its controlled entities are presented as those of a single economic entity.

Separate financial statements are those presented by an entity, in which the entity could elect, subject to the requirements in this Standard, to account for its investments in controlled entities, joint ventures and associates either at cost, in accordance with Guidance on ‘Financial Instruments’ or using the equity method as described in ASLB 36, ‘Investment in Associates and Joint Ventures’.

Terms defined in other ASLBs are used in this Standard with the same meaning as in those Standards. The following terms are defined in ASLB 35, ‘Consolidated Financial Statements’, ASLB 36, ‘Investment in Associates and Joint Ventures’ or ASLB 37, ‘Joint Arrangements’⁴: associate, control, controlled entity, controlling entity, economic entity, equity method, investment entity, joint control, joint operation, joint venture, joint venturer and significant influence.

7. Separate financial statements are those presented in addition to consolidated financial statements or in addition to the financial statements of an investor that does not have controlled entities but has investments in associates or joint ventures in which the investments in associates or joint ventures are required by ASLB 36 to be accounted for using the equity method, other than in the circumstances set out in paragraphs 9-10.

³ Refer paragraph 1.3 of the ‘Preface to the Accounting Standards for Local Bodies’.

⁴ ASLB 36 is under formulation. The standard makes a reference to the various ASLBs and Guidance on ‘Financial Instruments’ that are yet to be formulated/ issued. The Guidance in regard to those may be obtained from other corresponding pronouncements as per the hierarchy prescribed in paragraph 15 of the ASLB 3, ‘Accounting Policies, Changes in Accounting Estimates, and Errors’.

8. The financial statements of an entity that does not have a controlled entity, associate or joint venturer's interest in a joint venture are not separate financial statements.
9. An investment entity⁵ that is exempted in accordance with paragraph 5 of ASLB 35, from consolidation or paragraph 23 of ASLB 36, from applying the equity method may present separate financial statements as its only financial statements.
10. An investment entity that is required, throughout the current period and all comparative periods presented, to measure its investment in all its controlled entities at fair value through surplus or deficit in accordance with paragraph 56 of ASLB 35, presents separate financial statements as its only financial statements.

Preparation of Separate Financial Statements

11. ***Separate financial statements should be prepared in accordance with all applicable ASLBs, except as provided in paragraph 12.***
12. ***When an entity prepares separate financial statements, it should account for similar investments in controlled entities, joint ventures and associates either:***
 - (a) ***At cost;***
 - (b) ***In accordance with Guidance on 'Financial Instruments';*** or
 - (c) ***Using the equity method as described in ASLB 36.***
13. ***If an entity elects, in accordance with paragraph 24 of ASLB 36, to measure its investments in associates or joint ventures at fair value through surplus or deficit in accordance with Guidance on 'Financial Instruments', it should also account for those investments in the same way in its separate financial statements.***
14. ***If a controlling entity is required, in accordance with paragraph 56 of ASLB 35, to measure its investment in a controlled entity at fair value through surplus or deficit in accordance with Guidance on 'Financial Instruments', it should also account for that investment in the same way in its separate financial statements. If a controlling entity that is not itself an investment entity is required, in accordance with paragraph 58 of ASLB 35, to measure the investments of a controlled investment entity at fair value through surplus or deficit in accordance with Guidance on 'Financial Instruments' and consolidate the other assets and liabilities and revenue and expenses of the controlled investment entity, it should also account for that investment in the controlled investment entity in the same way in its separate financial statements.***

⁵ The concept of 'investment entity' may not be applicable to Local Bodies in India in current scenario. However, the same may be relevant in future, hence retained here.

15. ***When a controlling entity ceases to be an investment entity, or becomes an investment entity, it should account for the change from the date when the change in status occurred, as follows:***
- (a) ***When an entity ceases to be an investment entity, the entity should account for an investment in a controlled entity in accordance with paragraph 12. The date of the change of status should be the deemed acquisition date. The fair value of the controlled entity at the deemed acquisition date should represent the transferred deemed consideration when accounting for the investment in accordance with paragraph 12.***
 - (b) ***When an entity becomes an investment entity, it should account for an investment in a controlled entity at fair value through surplus or deficit in accordance with Guidance on 'Financial Instruments'. The difference between the previous carrying amount of the controlled entity and its fair value at the date of the change of status of the investor should be recognised as a gain or loss in surplus or deficit. The cumulative amount of any gain or loss previously recognised directly in net assets/equity in respect of those controlled entities should be treated as if the investment entity had disposed of those controlled entities at the date of change in status.***
16. ***Dividends or similar distributions from a controlled entity, a joint venture or an associate are recognised in the separate financial statements of an entity when the entity's right to receive the dividend or similar distribution is established. The dividend or similar distribution is recognised in surplus or deficit unless the entity elects to use the equity method, in which case the dividend or similar distribution is recognised as a reduction from the carrying amount of the investment.***
17. ***When a controlling entity reorganises the structure of its economic entity by establishing a new entity as its controlling entity⁶ in a manner that satisfies the following criteria:***
- (a) ***The new controlling entity obtains control of the original controlling entity either (i) by issuing equity instruments⁷ in exchange for existing equity instruments of the original controlling entity, if any, or (ii) by some other mechanism which results in the new controlling entity having a controlling ownership interest in the original controlling entity;***
 - (b) ***The assets and liabilities of the new economic entity and the original economic entity are the same immediately before and after the reorganisation; and***
 - (c) ***The owners of the original controlling entity before the reorganisation have the same absolute and relative interests in the net assets of the original economic entity and the new economic entity immediately before and after the reorganisation;***

⁶ Restructuring/ reorganisation may normally happen in Local Bodies in India with Government directive/ order only.

⁷ Issuance of equity Instruments may also not be relevant for local bodies in India in current scenarios.

and the new controlling entity accounts for its investment in the original controlling entity in accordance with paragraph 12(a) in its separate financial statements, the new controlling entity should measure cost at the carrying amount of its share of the net assets/equity items shown in the separate financial statements of the original controlling entity at the date of the reorganisation.

18. Similarly, an entity that is not a controlling entity might establish a new entity as its controlling entity in a manner that satisfies the criteria in paragraph 17. The requirements in paragraph 17 apply equally to such reorganisations. In such cases, references to "original controlling entity" and "original economic entity" are to the "original entity".

Disclosure

19. **An entity should apply all applicable ASLBs when providing disclosures in its separate financial statements, including the requirements in paragraphs 20-23.**
20. **When a controlling entity, in accordance with paragraph 5 of ASLB 35, elects not to prepare consolidated financial statements and instead prepares separate financial statements, it should disclose in those separate financial statements:**
- (a) **The fact that the financial statements are separate financial statements that the exemption from consolidation has been used; the name of the entity whose consolidated financial statements that comply with ASLBs have been produced for public use; and the address where those consolidated financial statements are obtainable.**
 - (b) **A list of significant investments in controlled entities, joint ventures and associates, including:**
 - (i) **The name of those controlled entities, joint ventures and associates.**
 - (ii) **The jurisdiction in which those controlled entities, joint ventures and associates operate (if it is different from that of the controlling entity).**
 - (iii) **Its proportion of the ownership interest held in those entities and a description of how that ownership interest has been determined.**
 - (c) **A description of the method used to account for the controlled entities, joint ventures and associates listed under (b).**
21. **When an investment entity that is a controlling entity (other than a controlling entity covered by paragraph 20) prepares, in accordance with paragraph 10, separate financial statements as its only financial statements, it should disclose that fact. The investment entity should also present the disclosures relating to investment entities required by ASLB 38, 'Disclosure of Interest in Other Entities'.**
22. **If a controlling entity that is not itself an investment entity is required, in accordance with paragraph 56 of ASLB 35, to measure the investments of a controlled investment entity at fair value through surplus or deficit in accordance with Guidance on 'Financial Instruments' and consolidate the other assets and liabilities and revenue and expenses**

of the controlled investment entity, it should disclose that fact. The entity should also present the disclosures relating to investment entities required by ASLB 38, 'Disclosure of Interest in Other Entities'.

23. *When a controlling entity (other than a controlling entity covered by paragraphs 20-21) or an investor with joint control of, or significant influence over, an investee prepares separate financial statements, the controlling entity or investor should identify the financial statements prepared in accordance with ASLB 35, ASLB 36 or ASLB 37, to which they relate. The controlling entity or investor should also disclose in its separate financial statements:*

- (a) The fact that the statements are separate financial statements and the reasons why those statements are prepared, if not required by legislation or other authority.*
- (b) A list of significant controlled entities, joint ventures and associates, including:
 - (i) The name of those controlled entities, joint ventures and associates.*
 - (ii) The jurisdiction in which those controlled entities, joint ventures and associates operate of different from that of the controlling entity).*
 - (iii) Its proportion of the ownership interest held in those entities and a description of how that ownership interest has been determined.**
- (c) A description of the method used to account for the controlled entities, joint ventures and associates listed under (b).*

24-34. [Refer to Appendix 1]

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 34 and the corresponding International Public Sector Accounting Standard (IPSAS) 34, 'Separate Financial Statements'.

Comparison with IPSAS 34, 'Separate Financial Statements'

1. The following paragraphs of IPSAS 34 have been deleted. In order to maintain consistency with the corresponding IPSAS 34, the paragraph numbers have been retained:
 - (i) Paragraphs 24-31 pertaining to transitional provision have been deleted as a separate ASLB corresponding to IPSAS 33, 'First-time Adoption of IPSASs' is being formulated which would contain all transitional provisions at one place.
 - (ii) Paragraphs 32-33 pertaining to effective date have been deleted as draft ASLB 21 would become mandatory for Local Bodies in a State from the date specified by the State Government concerned.
2. Paragraph 2A inserted with regard to applicability of ASLBs in line with other issued ASLBs.
3. The draft ASLB 34 makes a reference to the Guidance on 'Financial Instruments' and various ASLBs that are yet to be formulated/ issued. The clarification on obtaining guidance in regard to those ASLBs has been incorporated in the ASLB.
4. The footnotes have been appended in the Standard for the concepts of 'investment entity', 'restructuring/ reorganisation', and 'issuance of equity instruments' for clarification with regard to their applicability/relevance in the context of Local Bodies in India.