3.1 INTRODUCTION

1. It is necessary to distinguish between a consolidated financial statements, a separate financial statements and an Individual financial statements.
   a. An individual financial statement is prepared by an entity that does not have a subsidiary, an associate or a joint venture’s interest in a joint venture.
   b. Separate financial statements are statements of an investor where investments in the subsidiary, joint venture and associate are accounted for at cost or in accordance with Ind AS 109, Financial Instruments.
   c. Consolidated financial statements are the financial statements of a group in which the assets, liabilities, equity, income and cash flows of the parent and its subsidiaries are presented as those of a single entity.

   **Note:** Financial statements in which equity method is applied for investments in joint ventures and associates, technically referred to as economic entity financial statements, are also termed as consolidated financial statements.

2. Separate financial statements are presented in addition to:
   a. Consolidated Financial Statements (prepared in case of a subsidiary or subsidiaries); or
   b. Financial Statements in which investments in associates and joint ventures are accounted for using equity method.

   **Note:** These financial statements are not separate financial statements.

3. Entity may present separate financial statements as its only financial statements if it is:
   a. Exempt from consolidation; or
   b. Exempt from applying equity method; or
   c. An investment entity and apply exception to consolidation for all of its subsidiaries.
Example:

Entity A Limited has a subsidiary, a joint venture and an associate. It is required to prepare consolidated financial statements. In the consolidated financial statements, it will consolidate:

- The subsidiary as per full consolidation method.
- The associate as per equity method.
- Joint ventures are consolidated as per equity method in CFS whereas joint operations are consolidated as per proportionate consolidation method in IFS.

3.2 PREPARATION OF SEPARATE FINANCIAL STATEMENTS

1. Separate financial statements shall be prepared in accordance with all applicable Ind AS, except that it shall account for investments in subsidiaries, joint ventures and associates either:
   a. At cost: Account for in accordance with Ind AS 105, 'Non-current Assets Held for Sale and Discontinued Operations' (if investment is classified as held for sale then cost will be accounted for as per Ind AS; or
   b. In accordance with Ind AS 109 'Financial Instruments'.

2. The entity shall apply the same accounting for each category of investments.

For example, an entity that has investments in subsidiaries, associates & joint ventures can account for its investments in subsidiaries & associates at cost and investments in joint ventures in accordance with Ind AS 109. However, if that entity has investments in two associates, it cannot account investment in one associate as cost & investment in other associate in accordance with Ind AS 109. It has to choose either of the method for both the investments in associates.

3. An entity may be required to classify its investments in subsidiaries, joint ventures and associates as held for sale (or included in a disposal group that is classified as held for sale) in accordance with Ind AS 105. In such a situation, when these investments are accounted for at cost, they will henceforth be accounted for and measured as per Ind AS 105. However, the measurement of investments accounted as per Ind AS 109, is not changed in such circumstances.
4. **Exceptions:**
   a. Investments in associates and joint ventures could also be held by a venture capital organization, mutual fund, unit trust, investment linked insurance funds or similar entities. In accordance with paragraph 18 of Ind AS 28 ‘Investments in Associates and Joint Ventures’, these entities may elect to measure investments in associates and joint ventures at fair value through profit or loss in accordance with Ind AS 109 in its consolidated financial statements. In these circumstances, the entity shall also measure those investments in associates or joint ventures at fair value through profit or loss in accordance with Ind AS 109 in its separate financial statements also.

   b. An investment entity is not required to consolidate its subsidiaries or apply Ind AS 103, Business Combinations, when it obtains control of another entity. Instead it measures its investment in subsidiaries at fair value through profit or loss in accordance with Ind AS 109 in its consolidated financial statements. It is required to account for its investment in that ‘unconsolidated’ subsidiary in its separate financial statements also at fair value through profit or loss in accordance with Ind AS 109. It should be noted that an investment entity is required to consolidate a subsidiary or apply Ind AS 103 when that subsidiary provides services that relates to the investment activities of the investment entity. In such a situation, the aforesaid requirement does not apply.

5. **Measurement where change of status in case of Investment entities:**
   a. When an entity ceases to be an investment entity it shall measure its investment in subsidiary either
      (i) at cost (fair value of subsidiary at date of status shall be considered as deemed cost); or
      (ii) continue to account for as per Ind AS 109

   b. When an entity becomes an investment entity:
      (i) it shall account for investment in subsidiary at Fair value through profit & loss as per Ind AS 109;
      (ii) the difference between the carrying value and fair value shall be recognized in profit or loss;
      (iii) any previous fair value adjustments in Other Comprehensive Income (OCI) shall be treated as if investment entity had disposed off those subsidiary at the date of change in status.

6. **Recognition of dividend:**
   Dividend shall be recognized when its right to receive is established.
7. **Measurement where parent reorganized the group:**

a. A parent may reorganize the structure of its group by establishing a new entity as its parent in a manner that satisfies the following criteria:

   (i) New parent obtains control by issuing equity instruments in exchange of existing equity instruments.

   (ii) Assets & liabilities of new & original group are same immediately before and after reorganization.

   (iii) Owners have same absolute & relative interest in net assets of original group and the new group, immediately before and after reorganization.

   (iv) The new parent accounts for its investment in the original parent in its separate financial statements.

b. In these circumstances, the new parent shall measure cost at the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the date of the reorganization.

c. Similarly, an entity that is not a parent might establish a new entity as its parent in a manner that satisfies the criteria above. The above requirements apply equally to such reorganizations.