

# Non-controlling interests accounting under Ind AS



## This article aims to

- Provide an overview of the accounting of non-controlling interests under Ind AS.

## Introduction

The International Accounting Standards Board (IASB) changed the term 'minority interest' to 'Non-Controlling Interest' (NCI) in 2008 in the International Financial Reporting Standards (IFRS). The change in terminology reflects the fact that an owner of a minority interest in an entity might control that entity and, conversely, that the owners of a majority interest in an entity might not control the entity. Therefore, NCI is a more accurate description than minority interest of the interest of those owners who do not have a controlling interest in an entity.

Indian Accounting Standards (Ind AS) are converged with IFRS and therefore, Ind AS 110, *Consolidated Financial Statements* defines NCI as equity in a subsidiary not attributable, directly or indirectly, to a parent. Ind AS 110 requires a parent to present NCI in the Consolidated Financial Statements (CFS) within equity, separately from the equity of the owners of the parent. For example, if a parent owns 80 percent of a subsidiary directly and the remaining 20 percent is owned by a third party, then in the parent's CFS the 20 percent interest held by the third party is presented as NCI in that subsidiary (within equity). This is because existence of NCI in the net assets of a subsidiary does not give rise to a present obligation, the settlement of which is expected to result in an outflow of economic benefits from the group. It represents equity i.e. residual interest in the assets of the entity after deducting all its liabilities.

On the other hand, Accounting Standards (AS) use the term minority interest and not NCI. AS 21, *Consolidated Financial Statements*, defines minority interest as that part of the net results of operations and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiary(ies), by the parent. AS 21 prescribes that while preparing CFS a parent is required to identify and present minority interest separately from liabilities and the equity of the parent's shareholders. Thus, under AS minority interest is not presented as part of equity.

NCI can be categorised as:

- Present ownership interests that entitle their holders to a proportionate share of the entity's net assets in liquidation (ordinary NCI)
- All other NCI (other NCI) e.g. equity components of convertible bonds or options under share-based arrangements, etc.



## Measurement of NCI

Ind AS 103, *Business Combination* requires that for each business combination, where an acquirer does not acquire 100 per cent of a subsidiary, then the acquirer can elect on a transaction-by-transaction basis to measure ordinary NCI on initial recognition either at:

- Fair value at the date of acquisition, which means that goodwill, or the gain on a bargain purchase, includes a portion attributable to ordinary NCI; or
- The holders' proportionate interest in the recognised amount of the identifiable net assets of the acquiree, which means that goodwill, or the gain on a bargain purchase, relates only to the controlling interest acquired.

This accounting policy choice relates only to the initial measurement of ordinary NCI. After initial recognition, the option of measuring ordinary NCI at fair value is not available.

### Measurement of other NCI

The accounting policy choice available to ordinary NCI (as explained above) does not apply to 'other NCI'. Such instruments are measured as prescribed by the relevant Ind AS.

## Practical application areas

While preparing CFS, a parent may have to consider some practical application areas while accounting and presenting NCI. Some of the significant areas are as follows:

### • Attribution of profit and losses

As per Ind AS 110, an entity is required to attribute the profit or loss and each component of other comprehensive income to the owners of the parent and to the NCI. Additionally, Ind AS requires an entity to allocate the losses incurred by subsidiary between the parent and NCI even if it results in a negative balance of the NCI. Whereas under AS 21, if the losses attributable to minority interest in a subsidiary exceed the minority interest in the equity of the subsidiary, then such excess

and further losses are adjusted against the parent's share, except where the minority has a binding obligation to make good such losses.

### • Potential voting rights and the NCI proportion

As per the requirements of Ind AS 110, the determination of control of an entity takes into account potential voting rights that are substantive. However, Ind AS clarifies that NCI is generally based on current ownership interests because this corresponds to the economic interests of the parties.

This includes in substance current ownership interest i.e. as a result of a transaction that gives it access to the returns associated with an ownership interest. In this case, the proportion allocated to the parent and NCI is determined by taking into account the eventual exercise of those potential voting rights and other derivatives that currently give the entity access to the returns associated with an ownership interest.

### • Calculation of Earnings Per Share (EPS)

For the purpose of calculating EPS based on CFS, the entity would consider profit or loss attributable to the ordinary equity holders of the parent entity and if presented, profit or loss from continuing operations attributable to those equity holders.

The Ind AS Transition Facilitation Group (ITFG) of the Institute of Chartered Accountants of India (ICAI) in its recent bulletin, Bulletin 11<sup>1</sup> also reiterated that while calculating EPS, profit or loss attributable to the parent entity refers to profit or loss of the consolidated entity after adjusting profit attributable to NCI.

- **Sale/purchase of equity interest to/from NCI:** After a parent has obtained control of a subsidiary, there may be a change in its ownership interest in that subsidiary without losing control.

For example, the parent buys shares from, or sells shares to, NCI or the subsidiary issues new shares or reacquires its shares.

As per Ind AS 110, transactions that result in changes in ownership interests while retaining control are accounted for as transactions with equity holders in their capacity as equity holders. As a result, no gain or loss on such changes is recognised in profit or loss; instead, it is recognised in equity. Also, no change in the carrying amounts of assets (including goodwill) or liabilities is recognised as a result of such transactions.

The interests of the parent and NCI in the subsidiary are adjusted to reflect the relative change in their interests in the subsidiary's equity. As per Ind AS 110, any difference between the amount by which NCI are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent. These principles also apply when a subsidiary issues new shares and the ownership interests change as a result.

### • Non-reciprocal capital contribution:

Sometimes an entity receives amounts from shareholders in the form of capital contributions, being either cash or other non-monetary assets, which are non-reciprocal - i.e. no financial or non-financial obligation exists. This may happen, for example, when an entity requires additional financing or is in financial difficulty. Amounts might be received from all shareholders or only certain shareholders. The non-reciprocal capital contributions made by a parent to a non-wholly owned subsidiary should be allocated proportionately to NCI, i.e. they should be accounted for as transactions between shareholders, which have a direct impact on equity.

1. Ind AS Transition Facilitation Group (ITFG) of ICAI issues Clarifications Bulletin 11 dated 1 August 2017

For example: Company X makes non-reciprocal capital contribution of 100 to its subsidiary, Y, in which it holds a 75 per cent interest. The NCI in Y makes no capital contribution. As per NCI accounting an amount of INR25 is allocated to NCI and INR75 is allocated to parent equity directly in equity in the CFS of X.

- **Impairment testing of cash-generating units with goodwill and NCI**

Ind AS 36, *Impairment of Assets* requires an entity to test goodwill acquired in a business combination each year for impairment. The testing for impairment involves comparing the recoverable amount of a Cash Generating Unit (CGU) with the carrying amount of the CGU. An entity may measure NCI at their proportionate interest in the identifiable net assets of the subsidiary (that is a CGU or group of CGUs) at the date of acquisition. Therefore, goodwill

attributable to NCI would not be recognised in the parent's CFS. However, in this case, goodwill attributable to NCI is included in the recoverable amount of the related CGU or group of CGUs.

Hence, while conducting impairment testing of goodwill, in this case, the carrying amount of goodwill allocated to such a CGU or group of CGUs is grossed up to include the unrecognised goodwill attributable to the NCI. This adjusted carrying amount is then compared with the recoverable amount of the unit to determine whether the CGU is impaired. This gross-up is not required if NCI were initially measured at fair value.

If a non-wholly owned CGU is impaired, then impairment losses are allocated between the amount attributable to the parent and to the NCI. Ind AS 36 requires an entity to allocate the impairment loss on the same basis as profit or loss is allocated to the parent

and the NCI. If an impairment loss attributable to a NCI relates to goodwill that is not recognised in the parent's CFS, that impairment is not recognised as a goodwill impairment loss. In such cases, only the impairment loss relating to the goodwill that is allocated to the parent is recognised as a goodwill impairment loss.

### Presentation in the financial statements

In the parent's CFS, as mentioned above, NCI are presented within equity, separately from the equity of the owners of the parent. Therefore, if there are NCI in more than one subsidiary, then those interests are presented in aggregate in the CFS. In the parent's consolidated statement of profit and loss, the amount of profit or loss and total comprehensive income attributable to owners of the parent and NCI are shown separately; they are not presented as an item of income or expense.

The following illustration explains the disclosure

Extract of Statement of Profit and Loss for the year ended 31 March 2017

	Note	Year ended 31 March 2017	Year ended 31 March 2016
Profit attributable to owners of the company		5,848	3,738
NCI	19	376	219
<b>Profit for the year</b>		<b>6,224</b>	<b>3,967</b>

	Note	Year ended 31 March 2017	Year ended 31 March 2016
Other comprehensive income attributable to owners of the company		597	553
NCI	19	27	22
<b>Other comprehensive income for the year</b>		<b>624</b>	<b>576</b>

	Note	Year ended 31 March 2017	Year ended 31 March 2016
Total comprehensive income attributable to owners of the company		6,445	4,291
NCI	19	403	241
<b>Total comprehensive income for the year</b>		<b>6,848</b>	<b>4,532</b>

(Source: KPMG in India's publication: Illustrative Ind AS consolidated financial statements – First-time adoption, March 2017 edition)

## Disclosure requirements

Ind AS 112, *Disclosure of Interests in Other Entities* requires that an entity should disclose information that enables users of its CFS to understand:

- The composition of the group, and
- The interest that NCIs have in the group's activities and cash flows.

Therefore, following disclosures should be given:

- **Each material subsidiary with NCI:** The disclosure should include for each of its subsidiaries that have NCIs that are material to the reporting entity. These disclosures should enable users of the CFS to understand the interests that NCI have in the group's activities and cash flows. Materiality assessment is important when identifying subsidiaries that NCI that are material to the reporting entity. A reporting entity would provide:
  - The name of the subsidiary
  - The principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary
  - The proportion of ownership interests held by the NCI
  - The proportion of voting interests held by NCI, if different from the proportion of ownership interests held
  - The profit or loss allocated to NCI of the subsidiary during the reporting period

- Dividends paid to NCI
- Accumulated NCI of the subsidiary at the end of the reporting period.

- **Summarised financial information about subsidiaries:**

For each subsidiary that has NCI that are material to the reporting entity, summarised financial information about the assets, liabilities, profit or loss and cash flows of the subsidiary that enables users to understand the interest that NCI have in the group's activities and cash flows has to be provided. That information may include but would not be limited to, for example, current assets, non-current assets, current liabilities, non-current liabilities, revenue, profit or loss and total comprehensive income. This summarised financial information should be the amounts before inter-company eliminations.

- **Significant restrictions:** An entity is required to disclose the nature and extent of any significant contractual or statutory restrictions on an entity's ability to access or use the assets and settle the liabilities of the group such as
  - Restrictions on the ability of a parent or its subsidiaries to transfer cash or other assets to (or from) other entities within the group
  - Guarantees or other requirements that may restrict dividends and other capital

distributions being paid, or loans and advances being made or repaid, to (or from) other entities within the group

- Nature and extent of protective rights of NCI that can significantly restrict the entity's ability to access or use the assets and settle the liabilities of the group e.g.

- \* Parent obliged to settle liabilities of a subsidiary before settling its own liabilities, or
- \* Approval of NCI is required either to access the assets or to settle the liabilities of a subsidiary. In particular related to transfer of cash and dividends or other capital distributions (e.g. in case of capital and/or foreign exchange controls or other regulatory limitations).

Additionally, an entity would need to disclose the carrying amounts in the CFS of the assets and liabilities to which above restrictions apply.

- **Statement of cash flows:** In relation to above mentioned disclosure requirement, Ind AS 7, *Statement of Cash Flows* specifically requires disclosure to include, together with the commentary of management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group.

- **Disclosure of significant judgements:** Ind AS 112 does not clarify whether the NCI disclosures should be given at the subsidiary level or at a subgroup level for the subgroup of the subsidiary. The IFRS Interpretations Committee clarified that in the context of the disclosure objective of Ind AS 112<sup>2</sup>, materiality should be assessed by the reporting entity on the basis of the CFS of the reporting entity. In this assessment, a reporting entity would consider both quantitative considerations (i.e. the size of the subsidiary) and qualitative considerations (i.e. the nature of the subsidiary). The approach chosen by the reporting entity should best meet the disclosure objective of the Ind AS 112 in the circumstances. The IFRS Interpretations Committee observed that this judgement would be made separately for each subsidiary or subgroup that has a material NCI.

### Key Ind AS 101 requirements

Ind AS 101, *First-time Adoption of Indian Accounting Standards* allows a first-time adopter to choose to not to apply Ind AS 103 retrospectively to past business combinations i.e. those transactions which occurred before the date of transition to Ind AS. Additionally, it has been provided that if an entity opts to restate any business combination to comply with Ind AS 103, then such entity should restate all business combinations later than the date of such business combination.

Therefore, Ind AS 101 provides following options for business combinations that occurred before the date of transition:

- Restate all business combinations

- Restate all business combinations that occurred after a particular date of the first-time adopter's choice but before the date of transition or
- Do not restate any business combinations prior to the date of transition.

The exemption for past business combinations also applies to past acquisitions of investments in associates, interests in joint ventures and interests in joint operations in which the activity of the joint operation constitutes a business. Furthermore, the date selected to restate previous business combination applies equally for all such acquisitions.

If a first-time adopter opts to avail the business combination exemption then in such a case the balance of NCI under AS is not changed other than for adjustments made as part of the transition to Ind AS.

With respect to the business combinations that are not restated, a first-time adopter should apply the following requirements of Ind AS 110, in relation to accounting for NCI, prospectively from the date of transition to Ind AS:

- An entity should attribute the profit or loss and each component of the OCI to the owners of the parent and to the NCI, even if this results in the NCI having a deficit balance.
- When the proportion of the equity held by owners of the parent and NCI changes (without loss of control), an entity should adjust the carrying amounts of the owners of the parent and NCI to reflect the changes in their relative interests in the subsidiary. Such transactions would be recognised directly in equity (i.e. difference between

the amount by which the NCI is adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the parent).

- When there is loss of control over a subsidiary, account for it in accordance with Ind AS and related requirements of Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations*.

Additionally, if a subsidiary is being consolidated for the first time, then NCI are recognised as part of the initial consolidation adjustment.

On the other hand, if a first-time adopter elects to restate past business combinations in accordance with Ind AS, then the balance of NCI related to all such restated business combinations would be determined retrospectively, taking into account the impact of other elections made as part of the adoption of Ind AS.

### NCI holding put options<sup>3</sup>

Sometimes NCI of an entity's subsidiary are granted put options that convey to those shareholders the right to sell their shares in that subsidiary for an exercise price (fixed or variable) specified in the option agreement. In the CFS, the put option written by the entity represents the group's obligation to acquire one class of its own non-derivative equity instruments (shares in subsidiary) by delivering either cash, or a variable number of a different class of its own equity instruments (shares in parent).

In the absence of direct guidance in Ind AS 32, *Financial Instruments: Presentation* or 109, *Financial Instruments*, we consider that parent may elect an accounting policy based on either of the approaches provided in subsequent section.

2. IFRIC Update, September 2014, IFRS IC Foundation

3. Reference taken from KPMG in India's publication: Financial Instruments: Application under Ind AS March 2017 edition

### *Approach 1 – Put option recognised separately as a derivative liability*

The shares issued by the subsidiary to NCI holders are considered as equity instruments, being ownership interests in the consolidated group and the put option is recognised separately. We consider that the entity may elect to apply one of the following two accounting policies for measurement of the put option liability:

- **Recognise a financial liability for the present value of the exercise price of the put option:**

In accordance with Ind AS 32, the put option represents a contractual obligation for the entity to purchase its own equity instruments for cash/another financial asset. Therefore, the entity should recognise the present value of the amount payable on exercise of the option as a financial liability.

The IFRS Interpretations Committee has considered the issue of recognition of change in the carrying amount of such a put liability and indicated that under IFRS, companies could elect to present such changes either in profit or loss or in equity. If the same interpretation were applied under Ind AS, then the entity could elect and consistently adopt an accounting policy for recognising the change in the present value of the amount payable on exercise of

the put option, on each reporting date, either in profit or loss or equity.

In accordance with the principles of Ind AS 110, the other impact of this transaction may be recognised on the basis of the NCI's present access to the returns associated with the underlying shares (participation in fair value changes and rights to receive dividends). Thus, the NCI holders would continue to receive dividends on the shares held in subsidiary until the exercise of the put option. However, the option is exercisable at a fixed price that is adjusted for any dividends previously paid and the NCI holders cannot participate in the subsequent fair value changes in their shares. This indicates that the NCI does not have present access to all returns associated with an ownership interest in the shares. Therefore, the other impact of the put option transaction should be recognised as a debit to NCI (anticipated acquisition method) in the CFS.

- **Recognise put options as derivative liabilities at FVTPL<sup>4</sup>:**

If the entity elects to apply this accounting policy, it is required to account for put options separately as derivative liabilities measured at their FVTPL in the CFS. On initial recognition of the derivative liability, the

entity should also evaluate an appropriate accounting treatment for the corresponding impact. For example, one alternative could be to debit equity since this represents a cost of its investment in subsidiary. The equity shares held by NCI would continue to be classified and presented as equity instruments. Subsequent changes in the fair value of the derivative liability should be recognised in profit or loss.

### *Approach 2 – Classify shares held by NCI together with the put option as financial liabilities*

Under this approach, the entity may apply the guidance in Ind AS 32 by considering all the contractual terms and conditions between the group and the NCI holders. This would require analysing the shares in subsidiary held by NCI together with the put option written by parent in favour of NCI. On a combined analysis of these instruments, the substance of the contractual terms states that there is a contractual obligation for the parent entity to deliver cash or a variable number of shares to the NCI holder at a future date, in exchange for the shares held in the subsidiary. Therefore, the shares held by NCI, together with the put option, effectively meet the definition of a financial liability and are recognised as such in the CFS.

## Conclusion

The concept of NCI under Ind AS has many new requirements. The article highlights some of the new concepts related to NCI accounting. The entities transitioning to Ind AS should consider the facts and circumstances of the transactions and the economic environment to deliberate the effect of new accounting requirements.

4. FVTPL - Fair Value Through Profit or Loss

## Consider this

- Currently, minority interest arising on consolidation is measured at proportionate share in the book values of the net assets of the subsidiary. Under Ind AS, minority interest (referred to as NCI) needs to be measured on the acquisition date at either their fair value or based on the proportionate share of the fair value of the acquired entity's identifiable net assets. This choice can be applied on a case by case basis.
- Ind AS 110 requires losses relating to subsidiaries to be attributed to NCI even if it results in a negative balance. Therefore, in such a case, NCI could be a debit balance.
- The NCI in the balance sheet is classified as equity but are presented separately from the parent shareholders' equity.
- Profit or loss and Other Comprehensive Income (OCI) for the period are allocated between NCI and the shareholders of the parent.
- An entity may write a put option in favour of NCI holders in an existing subsidiary which is exercisable only on the occurrence of uncertain future events that are outside the control of both parties to the contract. In this case, the entity should account for the put option only if the terms affecting the exercisability of the option are genuine.



