IAS 27 - Consolidated and Separate Financial Statements

IAS 27 - Separate Financial Statements ((w.e.f 1st January 2013)

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IAS 27 – Objective and Scope

- IAS 27 sets out the accounting and reporting requirements for
  - (a) entities with investments in subsidiaries
  - (b) entities with investments in subsidiaries, joint ventures, and associates that elect or that are required by local regulations to present separate financial statements
- Primary objective
  - useful information provided to users
  - looks at the entity under the control of a parent company and its management

IAS 27 – Some Definitions

Consolidated financial statements

- financial statements of a parent company
  - includes all of its subsidiaries
- presented as one economic entity
- financial statements of the **group**

- **Parent**
  - an entity must control another entity
  - has the ***power to govern the entity's financial and operating policies***
  - through this, is ***able to obtain benefits*** from its activities

IAS 27 – Definitions

- ***Subsidiary***
  - an entity controlled by a parent
  - ***may be an unincorporated entity such as a partnership***

Who Presents Consolidated FS?

- All parent entities are required to present consolidated financial statements
  - must consolidate the financial statements of their subsidiaries
  - a short list of specific exceptions exists
- Excluded only if all of the following apply

  (a) it is a wholly-owned subsidiary or a partially-owned subsidiary of another entity whose other owners have been informed and do not object to the non-consolidation

Who Presents Consolidated FS?

(b) it does not have and is not in the process of having any debt or equity instruments that are publicly traded

(c) its ultimate or an intermediate parent prepares consolidated financial statements for public use that comply with IFRSs

IAS 27 – Control

- Voting Power
  - primary indication of control
  - ability to elect members to the body that sets the operating and financial policies
  - ownership of more than 50% of one entity by another is presumed to qualify as control
  - a parent can hold the voting power directly or indirectly

IAS 27 – Control

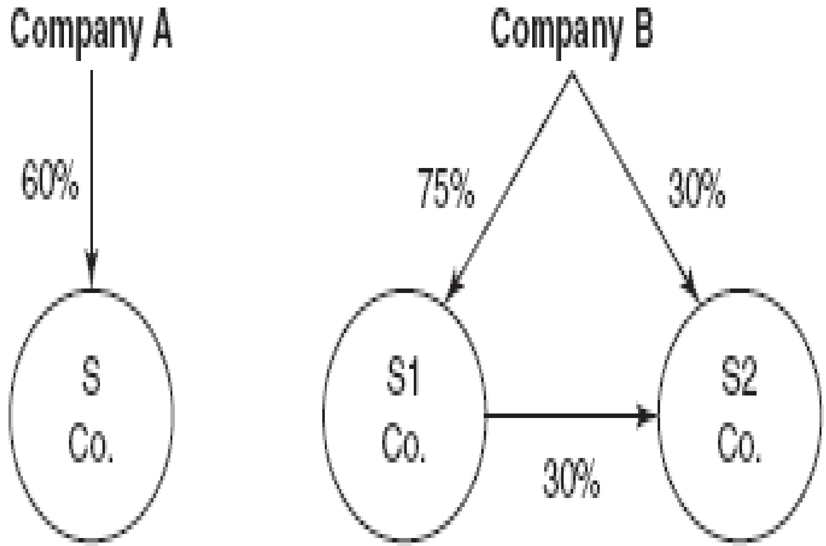
- Potential Voting Rights
  – can contribute to control
  – exist when an investor owns share warrants, call options, debt or equity securities convertible into voting shares
  – if exercised, would give it the necessary voting power or reduce someone else's voting power over the financial and operating policies of the investee
  – ***only rights that can be exercised or converted currently may contribute to control***

IAS 27 – Control

- Even when investor owns 50% or less, it can still have control:
  - agreement with others results in having more than half the voting rights
  - statute/agreement gives investor the right to govern investee's financial and operating policies
  - investee's governing body controls the investee and the investor has the power to appoint or remove the majority of its members

IAS 27 – Control

Illustration 32-1
Direct and Indirect Ownership



Company A directly owns 60% of the voting shares of S Co. and the presumption is that this gives Company A control. Company A is the parent and S Co. is its subsidiary.

S1 Co. is a subsidiary of Company B for the same reason. But what about S2 Co.? Company B owns only 30% of S2 directly but, through its control of S1, Company B is also able to vote the entire 30% ownership interest of S2 held by S1. Therefore Company B has 60% of the voting power of S2, making S2 Co. an indirect subsidiary of Company B.

IAS 27 – Consolidation Procedures

- Basics
  - parent includes its and all subsidiaries' financial statements together
  - all intercompany transactions and balances are eliminated
  - items on each entity's statements added together on line-by-line basis

IAS 27 – Consolidation Procedures

- Calculations and adjustments to prepare consolidated amounts
  1. All intragroup transactions, income, and expenses and balances are eliminated
  2. Unrealized gains and losses remaining within the group of companies are eliminated
  3. The carrying amount of parent's investment in each subsidiary is eliminated
  4. Interest of non-controlling shareholders in each subsidiary's net assets is determined at *fair value*
  5. Adjustments are made for any fair value differences and deferred taxes realized
  6. Interest of non-controlling shareholders in each consolidated subsidiary's profit or loss and OCI is determined

IAS 27 – Consolidation Procedures

Illustration 32-2
Consolidated Assets

Consolidated (Group) Assets
P Company (P) and Subsidiary S Company (S)

	100% of P's assets at their carrying amount, excluding Investment in S
+	100% of S's assets
	• Acquisition-date assets at their unrealized acquisition-date fair values
	• Post-acquisition assets at their carrying amount
+	Goodwill at its acquisition-date fair value (see IFRS 3)
=	Consolidated assets

IAS 27 – Consolidation Procedures

- summarizes the measurement bases of the assets that are reported on P Company’s consolidated or group balance sheet
- assumes P has a 75%-owned subsidiary, S Company
- all classes of assets are added together on a line-by-line basis
- assume all intercompany balances and unrealized gains and losses have been eliminated

IAS 27 – Consolidation Procedures

Illustration 32-3
Consolidated Liabilities

Consolidated (Group) Liabilities
P Company (P) and Subsidiary S Company (S)

100% of P's liabilities at their carrying amount

\+ 100% of S's liabilities

- Acquisition-date liabilities at their unrealized acquisition-date fair values
- Post-acquisition liabilities at their carrying amount

= Consolidated liabilities

IAS 27 – Consolidation Procedures

- indicates what is represented by the liabilities in the same consolidated statement of financial position for P and S
- the parent and subsidiary's individual line items are added together
- assumes that all intercompany balances and unrealized gains and losses have already been eliminated

IAS 27 – Consolidation Procedures

Illustration 32-4
Consolidated Equity

Consolidated (Group) Equity
P Company (P) and Subsidiary S Company (S)

Equity attributable to owners of P Company

Share capital	= 100% of P's share capital
Retained earnings	= 100% of P's retained earnings + 75% of S's post-acquisition retained earnings +/− 75% of the acquisition-date fair value differences realized
Other equity	= 100% of P's other equity +/− 75% of S's post-acquisition other equity components
	P Company group equity attributable to P Company's owners

\+ Non-controlling interests

	Fair value of non-controlling interest at acquisition (IFRS 3 calculation)
+	25% of changes in S's equity since acquisition
+/−	25% of acquisition-date fair value differences realized
=	P Company group equity attributable to non-controlling interests

= Total consolidated (group) equity

IAS 27 – Consolidation Procedures

- shows the components of P Company's group equity
- indicates what makes up each part
- the same assumptions indicated previously apply here as well

IAS 27 – Consolidation Procedures

- **Entity View of statement of financial position**
  - reports all resources under control of parent company management
  - reports how the total resources are financed
  - non-controlling interest is reported as part of group equity
    - N/C interest is an equity interest
  - same view carried over to statement of comprehensive income

IAS 27 – Consolidation Procedures

- **Consolidated comprehensive income**
  - intercompany transactions, revenues and expenses, and unrealized gains and losses are eliminated
  - individual revenues, expenses, and OCI added together on a line-by-line basis
  - bottom line profit or loss represents two interests
    - that of the parent company shareholders PLUS
    - those of the noncontrolling interest in the subsidiary

Illustration 32-5
Consolidated Comprehensive Income

Consolidated (Group) Comprehensive Income
P Company (P) and S Company (S)

Revenue:

100% of P's revenues, excluding investment income from S
+ 100% of S's revenues
= Consolidated revenues

Less expenses:

100% of P's expenses
+ 100% of S's expenses
+/− 100% of any acquisition-date fair value differences realized in the period
= Consolidated expenses

= Profit or loss
+/− Other comprehensive income (OCI):
100% of P's OCI
+ 100% of S's OCI
= Other comprehensive income
= Total comprehensive income for the period

Profit attributable to

Owners of the parent:	100% of P's profit excluding investment income from S + 75% of S's profit +/− 75% of any acquisition-date fair value differences realized in the period
Non-controlling interests:	25% of S's profit +/− 25% of any acquisition-date fair value differences realized in the period
=	Profit or loss for the period

Total comprehensive income attributable to

Owners of the parent:	Profit attributable to owners of the parent + 100% of P's OCI + 75% of S's OCI
Non-controlling interests:	+ Profit attributable to non-controlling interests + 25% of S's OCI
=	Total comprehensive income for the period

Changes in a Parent's Ownership Interests

- **Changes without a change in control**
  - parent continues to have a controlling interest
  - the transaction treated as a **capital transaction -** a transaction with owners in their capacity as owners

Accounting for this change

- controlling and non-controlling interests are adjusted
- difference between adjustment to non-controlling interest and fair value of amount paid or received by parent - *recognized directly in parent's equity*

Changes in a Parent's Ownership Interests

- **Loss of control of a subsidiary**
  – parent loses power to govern financial and operating policies
  – may result from sale of enough shares to tip the balance of voting power
  – may result from expiration of contract that previously gave investor an ability to exercise control

Changes in a Parent's Ownership Interests

- **Loss of Control of a Subsidiary**
  - loss of control ends parent-subsidiary relationship
  - if any continuing interest, new and different investor-investee relationship begins

Changes in a Parent's Ownership Interests

Steps by the Parent:-

1. derecognizes all of former subsidiary's assets and liabilities and the non-controlling interest at their carrying amounts when control lost
2. recognizes any retained investment in former subsidiary at its fair value on date control lost
3. recognizes fair value of consideration received
4. removes amounts previously recognized in OCI related to subsidiary- reclassified to profit or loss or taken directly to retained earnings
5. recognizes any resulting difference as a gain or loss in investor's profit or loss

Separate Financial Statements

- Parent company **exempt** from preparing consolidated financial statements may prepare separate financial statements as its only financial statements
- Other parent entities prepare separate financial statements **in addition** to consolidated ones

Separate Financial Statements

- Entity that presents separate financial statements for its investments in
  - subsidiaries
  - jointly controlled entities
  - associates

  recognizes dividends from them in profit or loss when rights to dividend are established
- **Account for these investments in separate statements**
  - at cost, or
  - according to IAS 39 (financial instruments)
- Choose same accounting for all investments in each category

IAS 27 – Disclosure: Consolidated

- Explanations of why entity is a subsidiary when investor does not own more than half the **voting power**
- Information about **date** of a subsidiary's financial statements if different from date of parent company's statements

IAS 27 – Disclosure: Consolidated

- Information about any **significant restrictions on ability of subsidiary to pay cash dividends and to transfer funds** to parent to repay loans/advances
- Effects of **changes** in parent's ownership interest in a subsidiary that **do not result in loss of control**
- The **gain or loss recognized on loss** of control of a subsidiary

IAS 27 – Disclosure: Separate

- **Identifies** statements as separate
- indicates it has used the **exemption** permitted
- provides information about related entity that has produced IFRS consolidated statements so it and group statements can be located

IAS 27 – Disclosure: Separate

Parent lists names of its major investments in subsidiaries, jointly owned entities, and associates, and provides for each

- its country of incorporation or where it reside
- proportionate ownership interest
- proportion of voting power, if different
- method used to account for each

IAS 27 – Separate Financial Statements (w.e.f 1st January 2013)

- IAS 27 was reissued in January 2008 and applies to annual periods beginning on or after 1 July 2009, and
- Is superseded by IAS 27 *Separate Financial Statements* and

  IFRS 10 *Consolidated Financial Statements* with effect from annual periods beginning on or after 1 January 2013.

IFRS 10 *Consolidated Financial Statements*

- Outlines the requirements for the preparation and presentation of consolidated financial statements, requiring entities to consolidate entities it controls.
- Control requires exposure or rights to variable returns and the ability to affect those returns through power over an investee.
- IFRS 10 was issued in May 2011 and applies to annual periods beginning on or after 1 January 2013.

About the Author

- *CA. Rajkumar S Adukia is an eminent business consultant, academician, writer, and speaker. He is the senior partner of Adukia & Associates.*

- *In addition to being a Chartered Accountant, Company Secretary, Cost Accountant, MBA, Dip IFR (UK), Mr. Adukia also holds a Degree in Law and Diploma in Labor Laws and IPR.*

- *Mr. Adukia, a rank holder from Bombay University completed the Chartered Accountancy examination with 1st Rank in Inter CA & 6th Rank in Final CA, and 3rd Rank in Final Cost Accountancy Course in 1983.*

- *He started his practice as a Chartered Accountant on 1st July 1983, in the three decades following which he left no stone unturned, be it academic expertise or professional development.*

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About the Author

- *He has been coordinating with various Professional Institutions, Associations, Universities, University Grants Commission and other Educational Institutions.*

- *Authored more than 50 books on a vast range of topics including Internal Audit, Bank Audit, SEZ, CARO, PMLA, Anti-dumping, Income Tax Search, Survey and Seizure, IFRS, LLP, Labour Laws, Real estate, ERM, Inbound and Outbound Investments, Green Audit etc.*

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Thank You