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Accounting (Basics) - Lecture 2

# Consolidated and separate financial statements

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# Requirement to present consolidated financial statements

- Consolidated financial statements shall include all subsidiaries of the parent. A parent need not present consolidated financial statements if:
  - a) both of the following conditions are met:
    - i. the parent is itself a subsidiary, and
    - ii. its ultimate parent (or any intermediate parent) produces consolidated general purpose financial statements that comply with full IFRSs or with IFRS for SMEs; or
  - b) it has no subsidiaries other than one that was acquired with the intention of selling or disposing of it within one year. A parent shall account for such a subsidiary:
    - i. at fair value with changes in fair value recognized in profit or loss, or
    - ii. otherwise at cost less impairment.

# Requirement to present consolidated financial statements

- A subsidiary is an entity that is controlled by the parent. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. If an entity has created a special purpose entity (SPE) to accomplish a narrow and well-defined objective (e.g. to effect a lease, undertake research and development activities or securitize financial assets), the entity shall consolidate the SPE when the substance of the relationship indicates that the SPE is controlled by that entity.
- Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. That presumption may be overcome in exceptional circumstances if it can be clearly demonstrated that such ownership does not constitute control.

# Requirement to present consolidated financial statements

- Control also exists when the parent owns half or less of the voting power of an entity but it has:
  - a) power over more than half of the voting rights by virtue of an agreement with other investors;
  - b) power to govern the financial and operating policies of the entity under a statute or an agreement;
  - c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or
  - d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

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# Requirement to present consolidated financial statements

- Control can also be achieved by having options or convertible instruments that are currently exercisable or by having an agent with the ability to direct the activities for the benefit of the controlling entity.

# Consolidation procedures

- The consolidated financial statements present financial information about the group as a single economic entity. In preparing consolidated financial statements, an entity shall:
  - a) combine the financial statements of the parent and its subsidiaries line by line by adding together like items of assets, liabilities, equity, income and expenses;
  - b) eliminate the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary;
  - c) measure and present non-controlling interest in the profit or loss of consolidated subsidiaries for the reporting period separately from the interest of the owners of the parent; and
  - d) measure and present non-controlling interest in the net assets of consolidated subsidiaries separately from the parent shareholders' equity in them. Non-controlling interest in the net assets consists of:

# Consolidation procedures

- i. the amount of the non-controlling interest at the date of the original combination calculated in accordance with Section “Business Combinations and Goodwill”, and
  - ii. the non-controlling interest’s share of changes in equity since the date of the combination.
- Intragroup balances and transactions, including income, expenses and dividends, are eliminated in full. Profits and losses resulting from intragroup transactions that are recognized in assets, such as inventory and property, plant and equipment, are eliminated in full. Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements.
- The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same reporting date and using uniform accounting policies for like transactions and other events and conditions in similar circumstances.



# Consolidation procedures

- The income and expenses of a subsidiary are included in the consolidated financial statements until the date on which the parent ceases to control the subsidiary, that is, from acquisition date.
- An entity shall disclose non-controlling interest in the profit or loss of the group separately in the statement of comprehensive income. Profit or loss and each component of other comprehensive income shall be attributed to the owners of the parent and to the non-controlling interest. Total comprehensive income shall be attributed to the owners of the parent and to the non-controlling interest even if this results in the non-controlling interest having a deficit balance.

# Disclosures in consolidated financial statements

- The following disclosures shall be made in consolidated financial statements:
  - a) the fact that the statements are consolidated financial statements.
  - b) the basis for concluding that control exists when the parent does not own, directly or indirectly through subsidiaries, more than half of the voting power.
  - c) any difference in the reporting date of the financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements.
  - d) the nature and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans.

# Separate financial statements

- IFRS for SMEs requires a parent to present consolidated financial statements. These IFRS do not require presentation of separate financial statements for the parent entity or for the individual subsidiaries. The financial statements of an entity that does not have a subsidiary are not separate financial statements.
- When a parent, an investor in an associate, or a venturer with an interest in a jointly controlled entity prepares separate financial statements, those separate financial statements shall disclose:
  - a) that the statements are separate financial statements, and
  - b) a description of the methods used to account for the investments in subsidiaries, jointly controlled entities and associates, and shall identify the consolidated financial statements or other primary financial statements to which they relate.

# Combined financial statements

- Combined financial statements are a single set of financial statements of two or more entities controlled by a single investor. These IFRS does not require combined financial statements to be prepared. If the investor prepares combined financial statements and describes them as conforming to the IFRS for SMEs, those statements shall comply with all of the requirements of IFRS for SMEs.
- Intercompany transactions and balances shall be eliminated; profits or losses resulting from intercompany transactions that are recognized in assets such as inventory and property, plant and equipment shall be eliminated; the financial statements of the entities included in the combined financial statements shall be prepared as of the same reporting date unless it is impracticable to do so; and uniform accounting policies shall be followed for like transactions and other events in similar circumstances.