Lebanese Association of Certified Public Accountants

LACPA

International Financial Reporting Standards

Groups Accounts

Lebanese Association of Certified Public Accountants

References:
IFRS Foundation
BPP Learning Media
Becker Professional Education
Open Tuition

Introduction

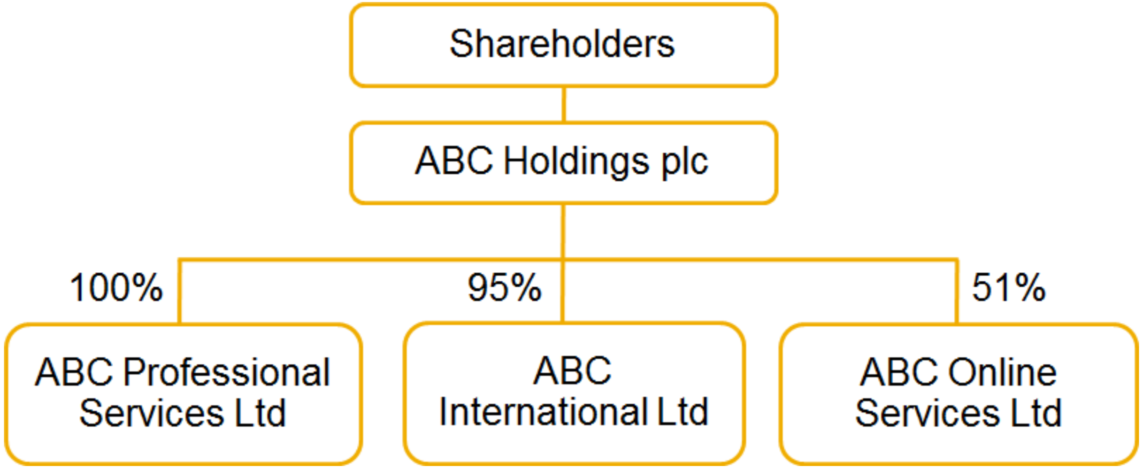
- What is a group of Companies?
- Why we prepare group accounts?
- How we start prepare a group financial statements?

Relevant Standards

- IAS 27 *Separate Financial Statements*
- IAS 28 *Investments in Associates and Joint Ventures*
- IFRS 3 *Business Combinations*
- IFRS 10 *Consolidated Financial Statements*
- IFRS 11 *Joint Arrangements*
- IFRS 12 *Disclosure of Interests in Other Entities*

What is a group of Companies?

- Companies may grow organically or by acquisition
- Where companies grow by acquisition they acquire control of other companies as below.



Why we prepare group accounts?

When a parent entity acquires control of a subsidiary it acquires the company's shares rather than its individual assets and liabilities.

Both the parent and the subsidiary continue to exist as separate legal entities and are required to produce financial statements at the end of each reporting period.

Under IAS 27 the investment in the subsidiary can be recorded in the parent's separate financial statements either:

At cost; or

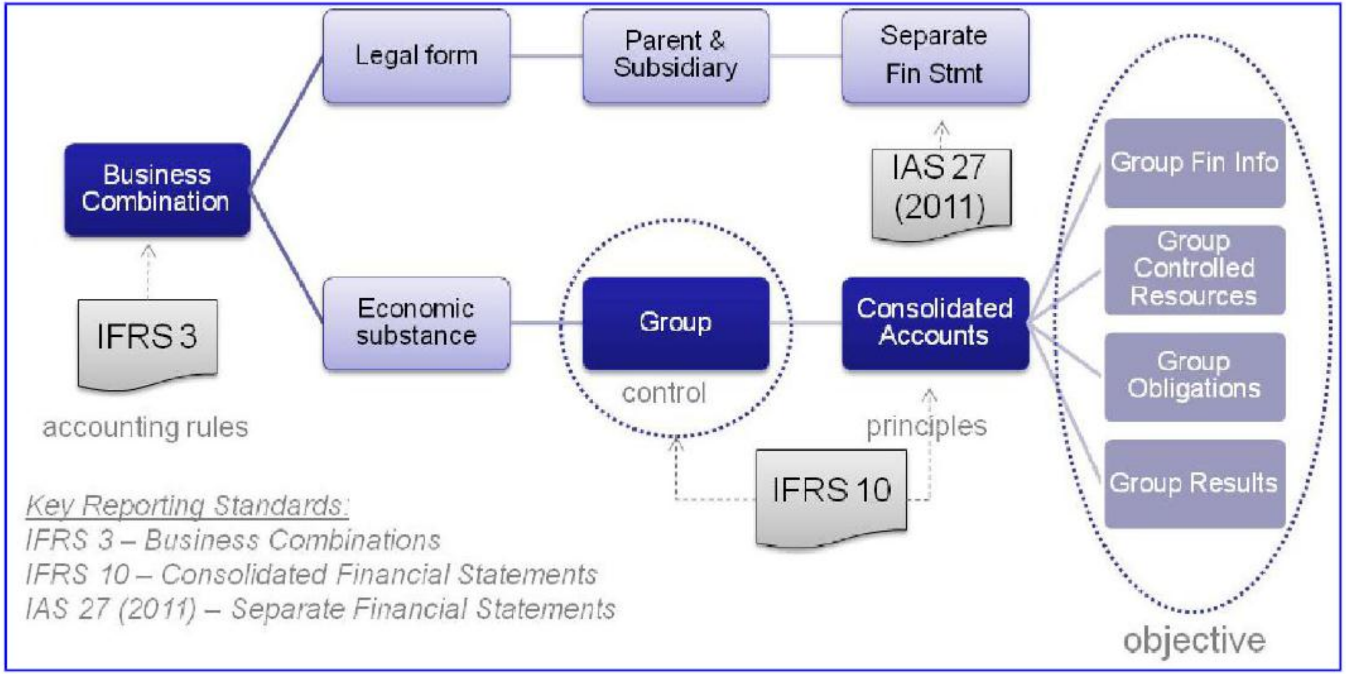
At fair value.

Why we prepare group accounts?

- This does not provide the parent's shareholders with complete information about the parent and so the parent is required to produce an additional set of financial statements called group or consolidated financial statements.
- These:
  - Present the results and financial position of the group as if it were a single economic entity
  - Are issued to the shareholders of the parent
  - Provide information about all companies controlled by the parent

This is an example of recording the economic substance of a relationship rather than its strict legal form.

Reporting standards dictate how a group should produce the various financial statements.



Reporting standards dictate how a group should produce the various financial statements.

IAS 27 - Separate Financial Statements handles the separate (nonconsolidated) financial statements where a business combination exists. The parent must prepare separate financial statements and must record its investment in the subsidiary based on the standard's guidelines.

IFRS 3 - Business Combinations details the specific accounting treatment of business combinations.

IFRS 10 - Consolidated Financial Statements defines control and the guiding principles for consolidated accounts.

Types of interest in other entities

	Subsidiary Interest	Associate Interest	Joint Arrangement	Investment Interest
Ownership	≥50%	20% - 49%	Joint	< 20%
Accounting Standards	IFRS 3 IFRS 10	IAS 28	IFRS 11	IFRS 9
Accounting Treatment	Control = Full Consolidation= Acquisition method	Significant influence = Equity method	Joint operation = in accordance with relevant IASs/IFRSs; Joint venture = equity method.	Separate financial statements are not required.

Preparation and Presentation of Consolidated Financial Statements

- IFRS 10 *Consolidated Financial Statements*
- IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 10 Consolidated Financial Statements

- A company is a subsidiary of another, if that other company (the '**parent**') is in a position to exercise **control**
- A parent should prepare and present **consolidated financial statements**, ***except***

  if it meets ***all*** of the following conditions:

- Parent is a wholly-owned subsidiary or, if partially owned, non-controlling interest do not require consolidated financial statements, **and**
- It is not listed or seeking to list, **and**
- Its immediate or ultimate parent files consolidated financial statements under IFRS

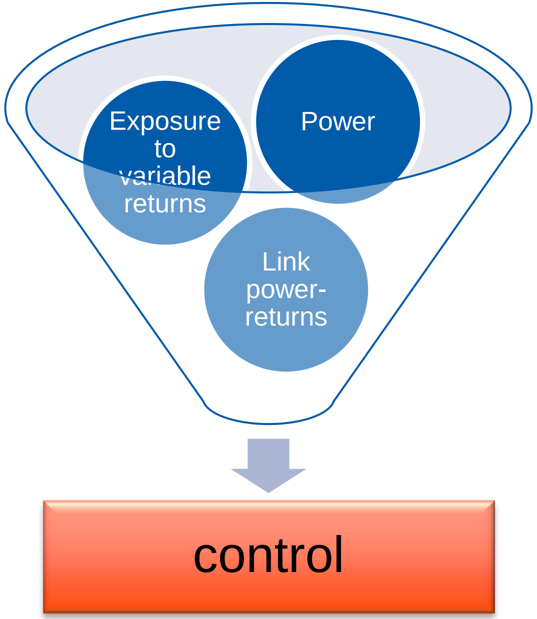
Dissimilar activities is ***not a valid reason*** for exclusion under any circumstances

Rule

- A company with a subsidiary on the last day of its accounting period must prepare consolidated financial statements in addition to its own individual accounts
- A parent will usually prepare consolidated:
  - statement of financial position
  - statement of profit or loss and OCI
  - statement of cash flows
  - statement of changes in Equity and Notes

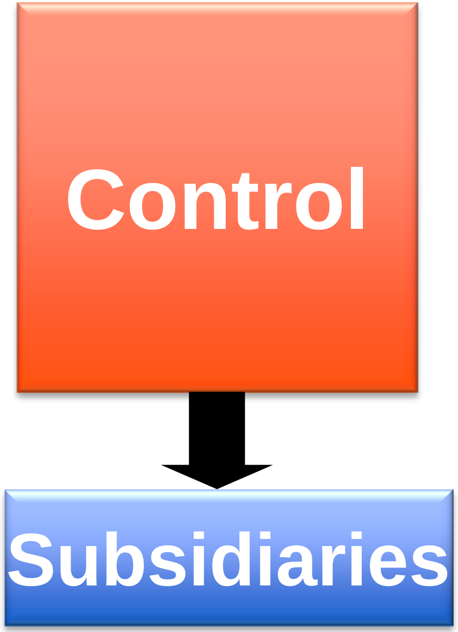
  using acquisition method

Control is key



- Power to direct the relevant activities
- Relevant activities → significantly affect the investee's returns
- Variable return i.e. dividends, remuneration from services, fees, Interest, tax benefits etc…
- To control an investee, an investor must also have the ability to use its power to affect investor’s returns from its involvement with the investee

Control is key

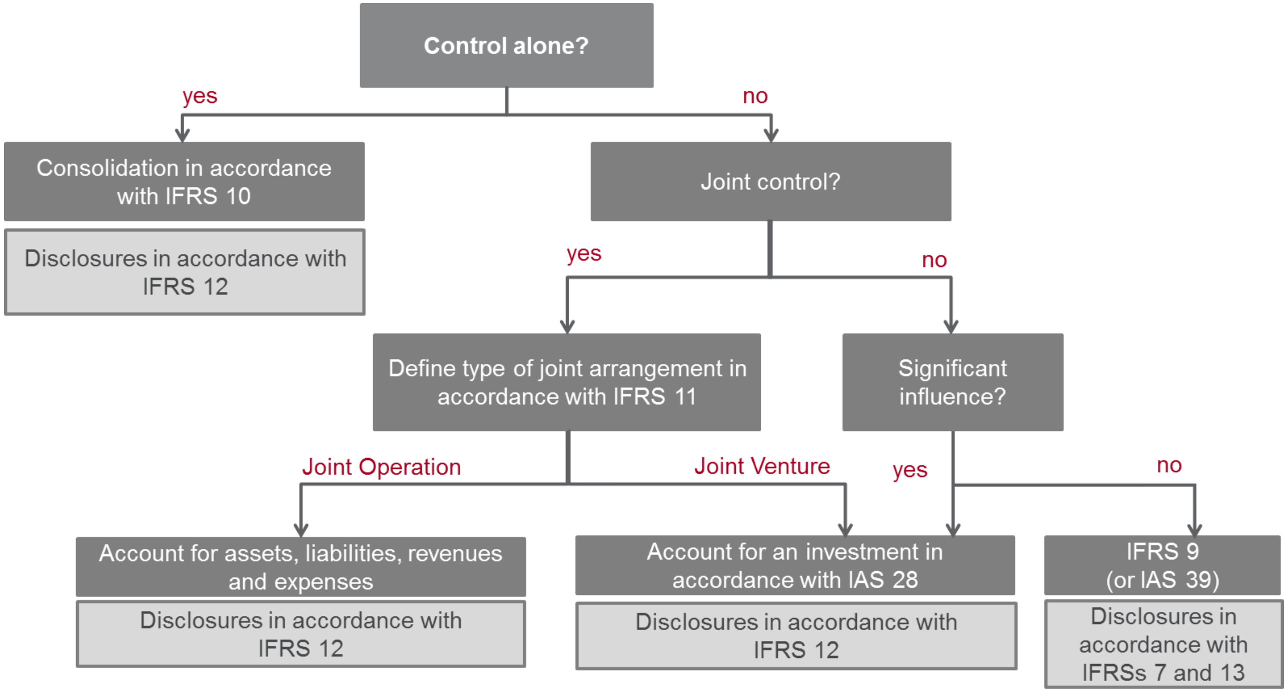


- Has the power to direct the activities
- Can exercise the majority of the voting rights in the investee
- Is in a contractual arrangement with others giving control
- Holds < 50% of the voting rights, but the remainder are widely distributed
- Holds potential voting rights which will give control

Illustration A

- A holds 48% of voting rights in S
- All other rights held by 1000’s of shareholders, none of which hold more than 1%
- Highly likely that A has power over S even though it holds less than 50% of the voting rights

Interaction between IFRS10, 11, 12, and IAS28



Key consolidation issues

- Date of acquisition – ‘control’
- Line by line basis – combine assets, liabilities, income and expenses
    - ✓ ie 100% P + 100% S irrespective of how much P actually owns
- Intra-group transactions and balances should be eliminated
- Uniformity of accounting policies
    - ✓ Uniform accounting policies should be used for all entities included in the consolidation for like transactions and other events in similar circumstances
- Non-coterminous year ends
    - ✓ Financial statements within three months of the parents year-end can be used and adjusted for any.

Key consolidation issues

- Mid-year acquisitions
  - ✓ Calculate the subsidiary's retained earnings at acquisition, assuming subsidiary profits in the year accrue evenly.
- Non-controlling interests should be shown in equity separately from liabilities and parent's equity
- De-consolidation on date of ceasing to meet definitions of subsidiary
  - ✓ Control lost = IAS 28 or IFRS 11
- Non-consolidation, Subsidiaries are not consolidated if it is:
  - ✓ Held for sale in accordance with IFRS 5 and
  - ✓ Operating under long-term restrictions such that the parent company cannot exercise control

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 specifies the disclosures for:

- Interests in subsidiaries;
- Interests in associates and joint arrangements; and
- Interests in unconsolidated structured entities.

In summary, the disclosures should enable users to understand the nature and extent of the interest and the risks associated with it, together with consequences of any changes during the period.

IFRS 3 Business Combinations

- A ***business combination*** is the bringing together of separate entities into one reporting entity
- ***Control*** is the power to direct the activities of an entity or business which is assumed to be when the entity has > 50% of the voting rights, so as to obtain benefits from its activities
- The ***acquisition date*** is the date on which the acquirer effectively obtains ***control*** of the acquiree

Acquisition Method

IFRS 3 deals with accounting for business combinations and the ongoing treatment of goodwill must use ***acquisition method***

Thus the acquirer recognises acquiree's identifiable assets, liabilities and contingent liabilities at their ***fair values*** at the acquisition date, and also recognises ***goodwill***, which is subsequently tested for impairment (rather than amortised)

The following steps should be undertaken in applying the ***acquisition method***:

1. Identify the acquirer;
2. Determine the acquisition date;
3. Recognise and measure the identifiable net assets acquired;
4. Recognise and measure any non-controlling interest; and
5. Recognise and measure goodwill or gain from a bargain purchase.

1. Identify the acquirer

In nearly all business combinations, one entity obtains ***control*** over the other

>50% of votes

Can exercise the majority of the voting rights

Is in a contractual arrangement giving control

Holds < 50% , the remainder are widely distributed

Holds potential voting rights which will give control

2. Determine the acquisition date

i.e. the date on which the acquirer obtains ***control*** of the acquiree

3. Recognise and measure the identifiable net assets acquired

- ***Recognise*** the acquiree's identifiable net assets at their acquisition-date ***fair value.***

3. Recognise and measure the identifiable net assets acquired (cont'd)

- ***Recognition criteria*** for assets and liabilities that existed at the acquisition date:
  - ✓ Assets other than intangibles – probable that associated future economic benefits will flow to the acquirer, and fair value can be measured reliably
  - ✓ Intangible assets – fair value can be measured reliably
  - ✓ Liabilities other than contingent liabilities – probable outflow of economic benefits, and fair value can be measured reliably; not future losses or restructuring costs unless previously recognised by acquiree
  - ✓ Contingent liabilities – fair value can be measured reliably

3. Recognise and measure the identifiable net assets acquired (cont’d)

Intangible Assets

Intangibles acquired in a business combination must be recognised separately from goodwill if:

- ✓ Separable or arise from contractual or other legal rights; and
- ✓ Fair value can be reliably measured.

Normal test for ‘probability of future economic benefits’ deemed to be satisfied for acquired intangibles

3. Recognise and measure the identifiable net assets acquired (cont'd)

The fair value is calculated as:

- Securities and tangible non-current assets - market value
- Receivables and payables - present value
- Finished goods and work in progress - net selling price less reasonable profit margin
- Raw materials - replacement cost
- Intangible assets - by reference to an active market, or otherwise on an arm's length basis
- if the fair value of an intangible asset cannot be measured with respect to an active market, then the amount recognised should be limited to an amount that does not create negative goodwill (or if it already exists, does not increase negative goodwill).

3. Recognise and measure the identifiable net assets acquired (cont'd)

Some examples of exceptions to the recognition or measurement principles

- (a) **Deferred tax:** use IAS 12 values.
- (b) **Employee benefits:** use IAS 19 values.
- (c) **Share-based payment**: use IFRS 2 values.
- (d) **Assets held for sale**: use IFRS 5 values.

4. Recognise and measure any non-controlling interest

NCI can be valued in one of two ways:

- ✓ Proportionate share of subsidiary’s identifiable net assets
- ✓ Fair value
    - NCI will include share of goodwill
    - Value of goodwill is greater

4. Recognise and measure any non-controlling interest

Non-controlling interest at end of reporting period

The option to value the non-contolling interest at fair value applies to non-controlling interest **at acquisition**. However, it will affect the valuation of non-controlling interest **at the year end**.

Under the two options above, this will be as follows (net assets now $3m)

Non-controlling interest at share of net assets

	$'000
S net assets	3,000
NCI 40%	1,200

Non-controlling interest at fair value

	$'000
Fair value of NCI	900
NCI share of increase in net assets ((3,000 – 2,000) × 40%)	400
Goodwill impairment (100 × 40%)	(40)
	1,260

5. Recognise and measure goodwill or gain from a bargain purchase

Goodwill is measured as the difference between:

- the aggregate of:
  - ✓ the acquisition-date ***fair value*** of the consideration transferred;
  - ✓ the amount of any ***non-controlling interest*** in the entity acquired (***two measurement options***); and
  - ✓ the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, both measured in accordance with IFRS 3

Goodwill

Goodwill is the difference between the value of the business taken as a whole and the fair value of its separate net assets

FV of consideration given	*X*
Value of NCI	*X*
less: FV of net assets on acquisition	*(X)*
Goodwill	*X*

Can be positive or gain on a bargain purchase (i.e. negative)

Positive goodwill

- Recognise as asset from date of acquisition
- Do not amortise
- Subject to annual impairment testing or more frequently if events or circumstances dictate

Gain on a bargain purchase (i.e. negative goodwill)

- Treated as immediate income i.e. ‘credit SPLOCI – P/L’ in arriving at profit or loss

- Adjustments can be made within 12 months if have used provisional figures, but must account for new values as if recognised at acquisition date

Provisional accounting

- Provisional values may have been placed upon net assets of acquiree
- If actual values become known within 12 months of acquisition, previous values are adjusted
  - IFRS 3 overrides IAS 8 in this situation
- Goodwill is adjusted to reflect change in net asset position
- If provisional figures are not known until after 12 months, IAS 8 applies

Goodwill

IFRS 3

IFRS 3 gives entities the option to value the non-controlling interest at **fair value**. This affects the goodwill and non-controlling interest calculations. The options are as follows: [P holds 60% of S. Goodwill impaired by $100,000. Fair value of NCI $900,000]

Non-controlling interest at share of net assets

Goodwill	$'000
Consideration transferred	1,600
Non-controlling interest (2,000 × 40%)	800
Net assets	(2,000)
Goodwill	400
Impairment	(100)
Carrying amount	300

Non-controlling interest at fair value

Goodwill	$'000
Consideration transferred	1,600
Non-controlling interest	900
Net assets	(2,000)
Goodwill	500
Impairment	(100)
Carrying amount	400

Note that the total goodwill is now $400,000, reflecting the $100,000 goodwill attributable to the non-controlling interest.

Costs of a business combination

- All ***acquisition-related costs*** (e.g. advisory, legal, accounting, valuation, other professional fees and general administrative costs) are recognised as ***period expenses*** in accordance with the appropriate IFRS.
- Costs incurred to issue debt or equity securities should be recognised in accordance with the standards on financial instruments.

Costs of investment

Cost of investment

- Cash
  - now (@ price paid/share)
  - deferred (@PV)
  - contingent (@FV)

- Shares
  - # S shares acquired
  - # P shares issued
  - Value the P shares (@P's share)

Costs of a business combination-Illustration

ABC acquired 300,000 of DEF's 400,000 ordinary shares during the year ended 28 February 20X5. DEF was purchased from its directors who will remain directors of the business.

The purchase consideration comprised:

- $250,000 in cash payable at acquisition
- $88,200 payable two years after acquisition
- $100,000 payable in two years' time if profits exceed $2m
- New shares issued in ABC on a 1 for 3 basis

The consideration payable in two years after acquisition is a tough target for the directors of DEF and so its fair value (taking into account the time value of money) has been measured at only $30,750.

The market value of ABC's shares on the acquisition date was $7.35.

An appropriate discount rate for use where relevant is 5%.

Costs of a business combination-Illustration

Required

- Calculate the consideration transferred to acquire DEF at the date of acquisition.

Costs of a business combination-Illustration Solution

Consideration transferred

• Cash	250,000
• Deferred consideration $\left(88{,}200 \times \left(\dfrac{1}{1.05^2}\right)\right)$	80,000
• Contingent consideration	30,750
• Shares in ABC (300,000 / 3 × \$7.35)	735,000
	1,095,750

Pre and post acquisition reserves

- Only the parent’s reserves appear in the group reserves.
- The pre-acquisition reserves of the subsidiary are not consolidated.
- However, post-acquisition, the group’s share of the subsidiary post-acquisition earnings must be added to the parent’s reserves to give the total group reserves.

Intra-Group transactions

- ✓ Current accounts between P and S
  - ➢ **Cash and goods in Transit**
- ✓ Loans held by one company in the other
- ✓ Dividends and Loan interest
- ✓ Unrealised profits
  - ➢ **On sales of inventory**
  - ➢ **On sales of non-current assets**

Cash in Transit

Illustration – Cash in transit

P has an intra-company trade receivable of $1,500 at the year-end due form S. This does not agree with the corresponding $1,000 trade payable in S due to a cheque of $500 sent by S immediately prior to the year-end, which P did not receive until after the start of the new accounting year.

To account for the cash in transit and intra-company balances we need to:

1) Record the cash in transit in the group accounts

DR Bank	$500	
CR Receivables		$500

2) Eliminate the equal intra-company balances

DR Payables	$1,000	
CR Receivables		$1,000

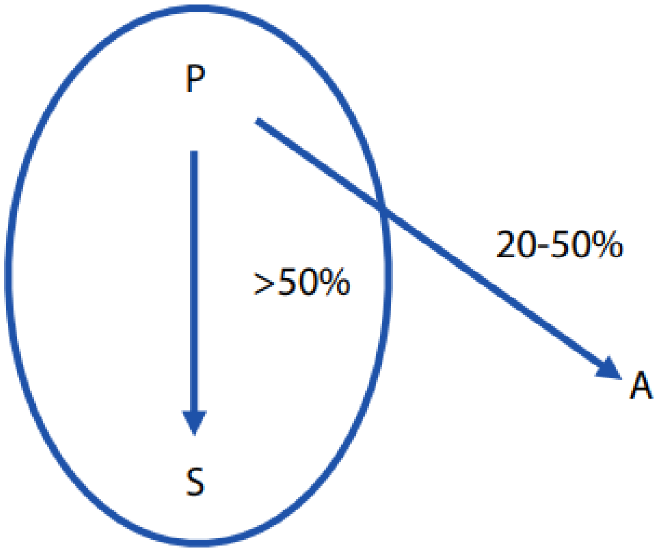
In summary CSOFP

Purpose	To show the assets and liabilities which it controls and their ownership
Assets and liabilities	Always 100% P plus S providing P has control
Share capital	P only
Reason	Simply reporting to the parent's shareholders in another form
Retained earnings	100% P plus group share of post-acquisition retained reserves of S less consolidation adjustments
Reason	To show the extent to which the group actually owns assets and liabilities included in the statement of financial position
Non-controlling interest	NCI share of S's consolidated assets less liabilities **or** fair value*
Reason	To show the extent to which other parties own assets and liabilities but under the control of the parent

* **Note.** If the NCI is at fair value you may be given a) the share price or b) the fair value of the NCI

In summary CSOFP-working

W1) Group Structure



In summary CSOFP-working

- W2 Net assets of subsidiary

	At reporting date	At acquisition	Post acquisition
Equity shares	X	X	
SP	X	X	
Ret. earnings	X	X	
PUP (W) – S seller	(X)		
FV adjustments	X/(X)	X/(X)	
	X	X	X

In summary CSOFP-working

- W3 Goodwill

FV of consideration (shares/cash/loan stock)	X
NCI at acquisition (FV)	X
	X
FV of net assets at acquisition (W2)	(X)
Goodwill at acquisition (full)	X
Less: impairments to date	(X)
Goodwill (carrying value)	X

In summary CSOFP-working

- W4 Non-controlling interests

NCI @ acq^n (W3)	X
Add: NCI% x S's post-acq^n profits (W2)	X
Less: NCI% x impairment to date (W3)	(X)
	X

In summary CSOFP-working

- W5 Group retained earnings

100% P	X
Add: P's % of S's post acq^n retained earnings (P's% x (W2))	X
Add: P's % of A's post acq^n retained earnings (P's% x (W6))	X
Less: P's% x impairment to date in subsidiary (W3)	(X)
Less: Impairment to date (associate) (W6)	(X)
Less: PUP (P seller)	(X)
	X

CSPLOCI

Consolidated statement of profit and loss and other comprehensive income

X/12

	P	*S*	*Adj.*	*Group*
Revenue	X	X	(X)	X
COS	(X)	(X)	X	
-PUP (Inventory)	(X)	(X)		(X)
-FV adj (extra dep^n)		(X)		
Gross profit				X
Dist costs	(X)	(X)		(X)
Admin exp.	(X)	(X)		
-Impairment		(X)		(X)

CSPLOCI cont'd

Consolidated statement of profit and loss and other comprehensive income

	X/12			
	P	*S*	*Adj.*	*Group*
Finance cost	(X)	(X)	X	(X)
Investment income	X	X	(X)	X
-Dividend from S/A	(X)			
Associate (P's % x A's PFY) - impairment				X
Profit before tax				X
Taxation	(X)	(X)		(X)
PFY		X		X

CSPLOCI cont'd

Consolidated statement of profit and loss and other comprehensive income

		X/12		
	P	*S*	*Adj.*	*Group*
Revaluation gain	X	X		X
Associate				X
TCI		X		X
		Parent (β)		X
		NCI = NCI% x S's TCI		X

In summary CSPLOCI

Purpose	To show the results of the group for an accounting period as if it were a single entity
Revenue to profit after tax	100% P + 100% S (excluding dividend receivable from subsidiary and adjustments for intra-group transactions)
Reason	To show the results of the group which were controlled by the parent
Intra-group sales	Strip out intra-group activity from both sales revenue and cost of sales
Unrealised profit on intra-group sales	(a) Goods sold by P: increase cost of sales by unrealised profit (b) Goods sold by S: increase cost of sales by full amount of unrealised profit and decrease non-controlling interest by their share of unrealised profit
Depreciation	If the value of S's non-current assets have been subjected to a fair value uplift then any additional depreciation must be charged in the consolidated statement of profit or loss. The non-controlling interest will need to be adjusted for their share.

In summary CSPLOCI

Transfer of non-current assets	Expenses must be increased by any profit on the transfer and reduced by any additional depreciation arising from the increased carrying amount of the asset. The unrealised profit is deducted from the profit of the entity making the sale. The excess depreciation is credited back to the entity holding the asset. For instance, P transfers an asset with a carrying amount of $1,000 to S for $1,100. Depreciation is 10% p.a. $100 is debited to P's statement of profit or loss and $10 is credited to the transferee. The carrying amount of the asset is reduced by $90.
Non-controlling interests	NCI% of S's PAT

In summary CSPLOCI

Consolidated statement of profit or loss

Adjustments required

- Eliminate **intra group sales and purchases**
- Eliminate **unrealised profit** on intra group purchases still in inventory at the year end
- Eliminate **intra group dividends**
- Split profit for the year between group and NCI

Procedure

- **Combine all P and S results** from revenue to profit after tax. Time apportion where the acquisition is mid-year.
- Exclude **intra group investment** income
- **Calculate NCI** (NCI% × PAT)

Unrealised profits and losses:

Only where S sells to P, allocate the unrealised profit between NCI and P: *Debit* group retained earnings, *Debit* NCI, *Credit* inventory

Disposal

Full disposal

SPLOCI:

- Consol results and NCI to date of disposal
- Show P/L on disposal

SOFP:

- No consol at ye

P/L on disposal calc:

	$	$
Fair value of consideration received		X
Less: Share of consolidated carrying amount at date control lost:		
Net assets	X	
Goodwill	X	
Less: Non-controlling interests	(X)	
		(X)
Group profit/(loss)		X/(X)

Disclosures

An acquirer should disclose information that enables users to evaluate the *nature and financial effect of business combinations* that were affected. This information will include:

(a) The names and descriptions of the combining entities;
(b) The acquisition date;
(c) The percentage of voting equity instruments acquired;
(d) Primary reasons for the business combination;
(e) The cost of the combination and the components of that cost;
(f) Details of operations that the entity has decided to dispose of;
(g) The amounts recognised for each class of the acquiree's net assets at acquisition date together with their carrying amounts immediately prior to the combination;
(h) The amount of any excess recognised in profit or loss on creation of negative goodwill;
(i) A description of the factors contributing to the recognition of goodwill; and
(j) The amount of the acquiree's profit or loss since the acquisition date included in the acquirer's profit or loss for the period, unless impracticable. If impracticable, fact must be disclosed.

Accounting for associates

Definition (IAS 28)

- An associate is an entity over which the investor has significant influence.
- Where significant influence is the power to participate in the financial and operating decisions of the investee but is not control or joint control over those policies

Accounting for associates

- IAS 28 also states that significant influence can be shown by:
  - Representation on the board of directors
  - Participation in policy making processes
  - Material transactions between the investor and the investee
  - Interchange of managerial personnel
  - Provision of essential technical information

The equity method

- An investment in an associate is accounted for in the consolidated financial statements using the **equity method**.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Non-current assets

Investment in associate (Working)	X

Working

Cost of associate	X
Share of post-acquisition retained reserves	X/(X)
Less impairment losses on associate to date	(X)
	X

The equity method

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

A's PFY $\times$ $^{x}/_{12}$ $\times$ Group%	X
A's OCI $\times$ $^{x}/_{12}$ $\times$ Group%	X

- Eliminate group's share of unrealised profit

DR	COS of A (in 'share of profit of A')/ Group ret'd earnings (P's column)	PUP $\times$ A%
CR	Investment in associate	PUP $\times$ A%

Trading and Dividends

Trading with the Associate

- Generally the associate is considered to be outside the group.
- Therefore any sales or purchases between group companies and the associate are not normally eliminated and will remain part of the consolidated figures in the statement of profit or loss.
- It is normal practice to instead adjust for the unrealised profit in inventory.

Dividends from Associates

- Dividends from associates are excluded from the consolidated statement of profit or loss; the group share of the associate's profit is included instead

Joint Arrangement IFRS 11

- A joint arrangement is an arrangement where two or more parties have joint control over an entity under a contractual agreement.
    - Joint venture
    - Joint operation

Joint venture

- A joint venture is whereby the parties **have rights to the net assets** of the arrangement. A separate entity is created and each of the venturers hold shares in the new entity.
- The accounting for the arrangement is done using **equity method**

Joint Arrangement IFRS 11

Joint operation

- A joint operation is whereby the parties **have rights to the assets and obligations to the liabilities** of the arrangement
- The accounting for the arrangement is done by each party recording their share of the arrangements assets and liabilities in their own statement of financial position and their share of revenue and costs in their own statement of profit or loss.

IFRS 11
The assessments required

1st assessment

JOINT CONTROL

Do all the parties, or a group of the parties, have **joint control** over the arrangement?

No → Outside the scope of IFRS 11

Yes ↓

2nd assessment

Classification of the JOINT ARRANGEMENT

Analysis of the **parties' rights and obligations** arising from the arrangement

→ **Joint Operation**

→ **Joint Venture**

IFRS 11
Assessing joint control

Does the contractual arrangement give all the parties, or a group of the parties, control of the arrangement collectively?

No → Outside the scope of IFRS 11

Yes ↓

Do the decisions about the relevant activities require the unanimous consent of all the parties, or of a group of the parties, that collectively control the arrangement?

No → Outside the scope of IFRS 11

Yes ↓

The arrangement is jointly controlled
the arrangement is a joint arrangement.

IFRS 11
Assessing the classification

Not structured through a separate vehicle

Structured through a separate vehicle

Assess the parties' **rights and obligations** arising from the arrangement by considering:

(a) the *legal form* of the separate vehicle
(b) the *terms of the contractual arrangement*, and, if relevant,
(c) *other facts and circumstances*

Parties have rights to the assets and obligations for the liabilities

Parties have rights to the net assets

Joint operation

Joint venture

Accounting for **assets, liabilities, revenues and expenses** in accordance with the contractual arrangements

Accounting for an **investment** using the **equity method**

IFRS 12
Disclosures for joint arrangements

Description of the nature, extent and the financial effects of an entity’s interests in joint arrangements

Joint operations

Joint ventures

Summarised financial information for each individually material joint venture and in total for all other joint ventures.

So in Summary

- A group is formed when **control** is established (usually based on > 50% ownership). A **parent** (controlling entity) and a **subsidiary** (controlled entity) result.

- The **cost of the investment** in the subsidiary can be shown in the parent's separate financial statements at **cost or fair value** (IAS 27)

So in Summary cont'd

- Group financial statements are based on **economic substance** (as opposed to legal form) and show the group as **a single business entity**.

- IFRS 10 defines **control** and the **guiding principles** for consolidated

accounts consolidation (e.g. uniform accounting policies and same accounting periods). Conditions to allow **exemption** from consolidation are also detailed.

So in Summary cont'd

- **Pre-acquisition reserves** of the subsidiary are not consolidated as they are part of the cost of investment. However, post-acquisition, the group's share of the subsidiary post-acquisition earnings must be added to the parent's reserves to give the total **group reserves**.

- IFRS 3 details the specific **accounting treatment** (i.e. the 'acquisition method') to handle various aspects of the consolidated accounts (e.g. business combination, treatment of **goodwill** and use of **fair values** for assets and liabilities of the group).

So in Summary cont'd

Approach to the consolidated statement of financial position

Step 1 draw up the group structure (W1), highlighting useful information:

- The % owned
- Acquisition date
- Pre-acquisition reserves

Step 2 Draw up a proforma taking into account the group structure identified:

- Leave out cost of investment
- Put in a line for goodwill
- Put in a line for investment in associate (where appropriate)
- Remember to include non-controlling interests
- Leave lines in case of any additions

So in Summary cont'd

Approach to the consolidated statement of financial position

Step 3 Work methodically down the statement of financial position, transferring figures to proforma or workings:

- 100% of all assets/liabilities controlled at the year end aggregated in brackets on face of proforma, ready for adjustments
- Cost of subsidiary/associate and reserves to group workings, setting them up as you work down the statement of financial position
- Share capital & share premium (parent **only**) to face of proforma answer
- Open up a (blank) working for non-controlling interests

So in Summary cont’d

Approach to the consolidated statement of financial position

Step 4 attempt the adjustments showing workings for all calculations.

- Cancel any intragroup items eg current a/c balances, loans
- Adjust for unrealised profits:
- Make fair value adjustments:

Step 5 Complete goodwill calculation

Step 6 Complete the consolidated retained earnings calculation:

Step 7 Complete investment in associate calculation (if appropriate):

Step 8 Complete the non-controlling interests calculation:

THANK YOU

Any Questions???

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