



**THE ANNUAL
FINANCIAL
REPORTING WEEK**

DATE: 9 September 2021

ICPAK *Emerging considerations in financial reporting*

Agenda for the day:

- IFRS 10 – Consolidated financial statements
- IFRS 11 – Joint arrangements
- IFRS 12 – Disclosure of Interests in other entities
- IAS 27 – Separate financial statements
- AIS 28 – Accounting for associates



What will you learn?

By completing this module you will be able to:

- Determine the level of influence over an investee
- Understand consolidation requirements
- Explain how to account for investment in subsidiaries
- Explain how to account for joint arrangements
- Explain accounting for associates and other investments
- Evaluate the quality of disclosures

Agenda

IFRS 10 – Consolidated financial statements

IFRS 10 – Consolidated financial statements

Introduction:

— Principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities

IFRS 10 is effective for periods beginning on or after 1 January 2013

Control possible if:

The principle of control sets out the following three elements of control:

1. Power over the investee;
2. Exposure, or rights, to variable returns from involvement with the investee; and
3. The ability to use power over the investee to affect the amount of the investor's returns

Apply the control principle

- In circumstances when voting rights or similar rights give an investor power, including situations where the investor holds less than a majority of voting rights and
- In circumstances involving potential voting rights
- In circumstances when an investee is designed so that voting rights are not the dominant factor in deciding who controls the investee, such as when any voting rights relate to administrative tasks only and

Power over investee

The relevant activities are directed by means of contractual arrangements

- In circumstances involving agency relationships
- In circumstances when the investor has control over specified assets of an investee

Structured entity

An entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity

- Such as when any voting rights relate to administrative tasks only and
- The relevant activities are directed by means of contractual arrangements

NB: An investor that holds only protective rights does not have power over an investee

Exemption from preparing consolidated financial statements

All these conditions
must be met

Entity is wholly-owned subsidiary, or partially-owned subsidiary and no owners object

No debt or equity instruments traded in a public market

Did not file and is not in process of filing its financial statements with a regulatory organisation to issue any class of instruments

Ultimate or any intermediate parent of the parent produces consolidated financial statements that comply with IFRSs and are available for public use

Same consolidation procedure/steps

Apply similar accounting methods to all subsidiaries

Translate into presentation currency – separate module

Eliminate investment against equity

Eliminate intra-group transactions

Allocate between parent and NCI

Non-controlling interests in subsidiaries must be presented separately from the equity of the owners of the parent

NCI

The equity in a subsidiary not attributable, directly or indirectly, to a parent

Statement of financial position

NCI presented within equity but separate from parent shareholders' equity

Statement of comprehensive income

Profit or loss and total comprehensive income for the period *allocated* to the parent and NCI

Losses allocated to NCI even if this results in NCI having a deficit balance

Non controlling interest

Accounted at full fair value (recognise share of goodwill)

Consolidation of goodwill

Fair value of consideration paid	XX
Add: Fair value of non-controlling interest	XX
Less: Fair value of identifiable net assets	(XX)
Full goodwill	XX

Positive goodwill

- Evaluate impairment annually
- Allocate impairment loss to controlling and non controlling interest
- No revaluation upward

Negative goodwill

- Reassess the valuation of net assets acquired
- Recognise negative goodwill immediately as other operating income

Loss of control

When control of a subsidiary is lost, the parent:

Ceases consolidation of the subsidiary

Recognises fair value of any consideration received

Recognises distribution of shares to new owners, if any

Recognises any non-controlling interest retained at fair value

Reclassifies to profit or loss/retain earnings amounts recognised in OCI in relation to subsidiary as if parent had disposed directly of related assets or liabilities



1. Consolidation begins from date the investor obtains control of the investee and
2. Consolidation ceases when the investor loses control of the investee
3. Changes in a parent's ownership interest in a subsidiary that does not result in the parent losing control of the subsidiary are equity transactions
4. Profit on disposal only recognised if control is lost

Questions and feedback

Agenda

IAS 27 – Separate financial statements

Definition of a group

Group



Parent and
subsidiaries

Outside the
group



Associates joint
ventures

Consolidated financial statements

Control



Consolidation

Joint control



Equity accounting

Significant influence



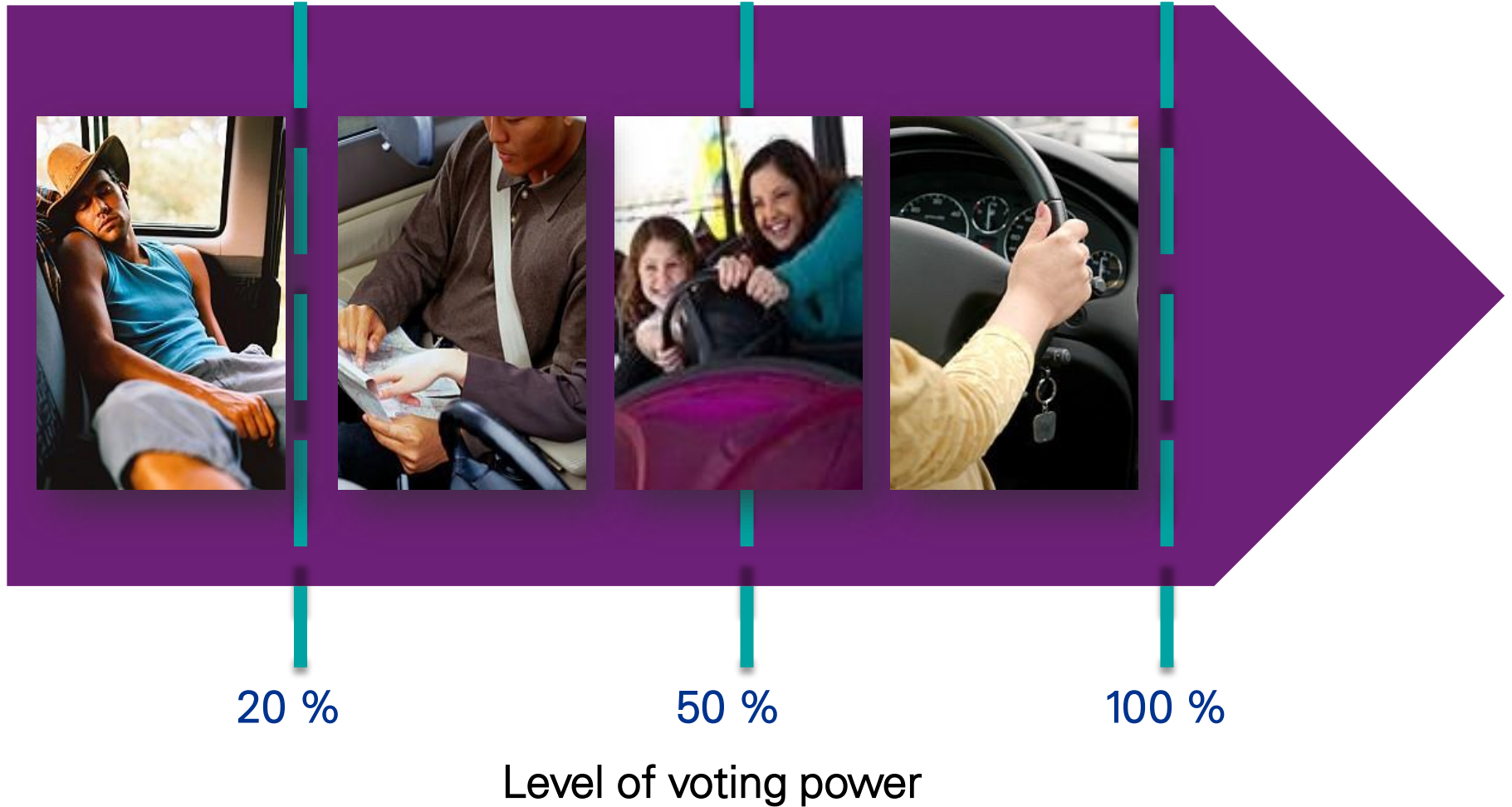
Equity accounting

No control



Financial asset

Level of influence over an investee



Separate financial statements

- In parent's separate financial statements investments in subsidiaries must be accounted for at:
 - cost; or
 - At fair value in accordance with IAS 39/IFRS 9
- **Must disclose:**
 - that the FS are separate FS
 - list of significant investments in subsidiaries, jointly controlled entities and associates
 - accounting policy adopted

Separate financial statements

Subsidiaries



Cost – IAS 27
or
Fair value –
IFRS 9

Joint control



Equity
accounting

Associate



Equity
accounting

Other
investments



Fair value –
IFRS 9

Agenda

IFRS 11 – Joint arrangements

IFRS 11 – Joint arrangements

Effective for annual periods beginning on or after 1 January 2013

Joint arrangements exist when decisions about the relevant activities require the unanimous consent of the parties sharing control

Types of joint arrangements

Two types – joint operations and joint ventures

- A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the **assets**, and obligations for the **liabilities**, relating to the arrangement.
- A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the **net assets** of the arrangement.

Joint operator and joint venture

Joint operator



To recognise and measure the assets and liabilities (and recognise the related revenues and expenses) in relation to its interest in the arrangement in accordance with relevant IFRSs applicable to the particular assets, liabilities, revenues and expenses

Joint venturer



To recognise an investment and to account for that investment using the equity method in accordance with IAS 28 Investment in Associates and Joint Ventures, unless the entity is exempted from applying the equity method

Questions and feedback

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IAS 28 – Accounting for associates

Accounting for associates

An associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture

Scope exemption for investments held by venture capitalists, mutual funds and unit trusts if designated at fair value or *as held for trading*

Investments in associates is accounted for using the equity method

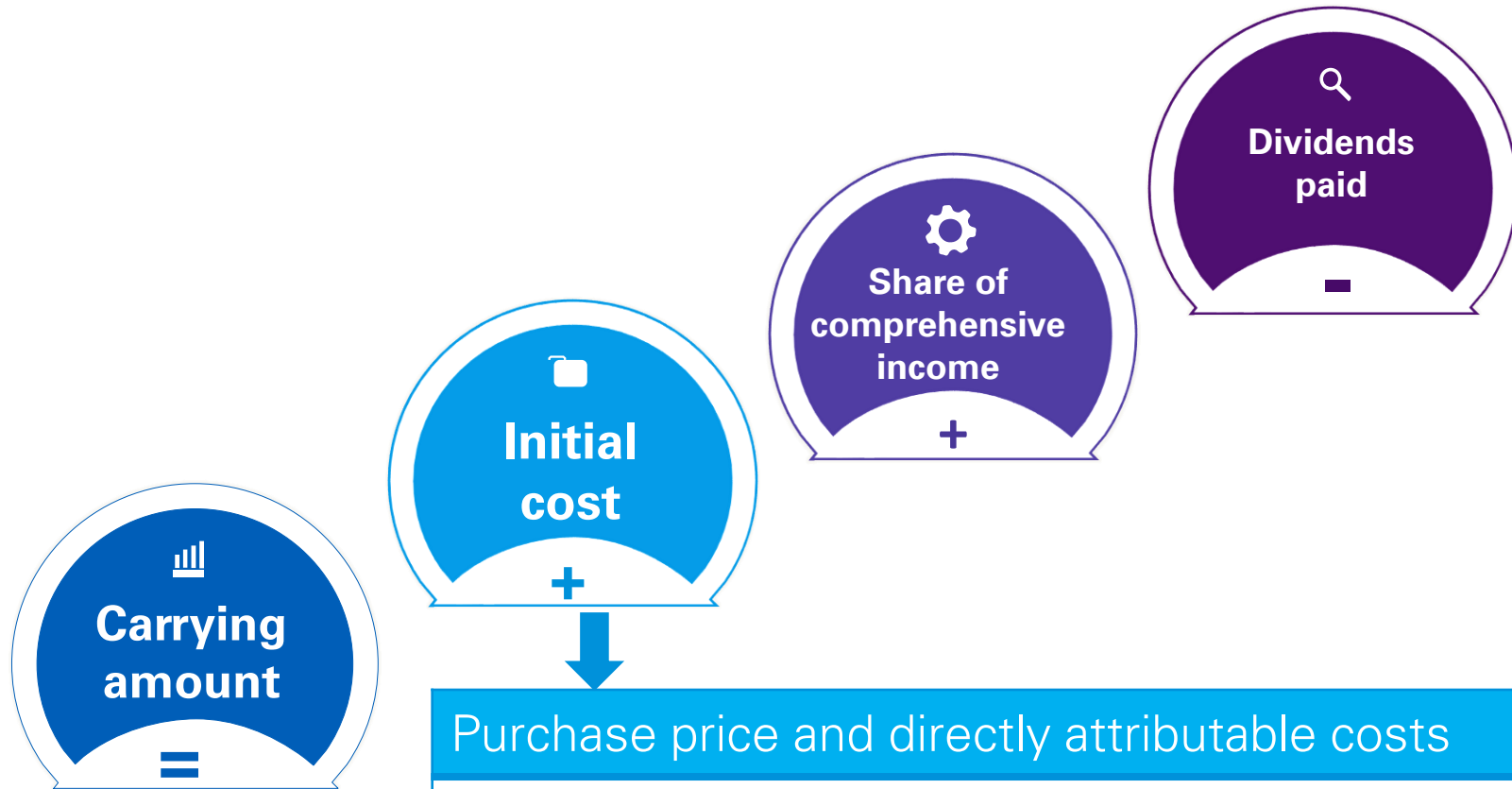
The equity method

Initially recorded at cost and thereafter adjusted for:

- Investor's share of post acquisition profit or loss;
- Distributions from the investee
- Changes in the investor's proportionate interest in the investee recorded in other comprehensive income
- Fair value adjustments, if any.

When potential voting rights exist only present ownership interests are considered

The equity method: Initial cost



Purchase price and directly attributable costs

Contingent consideration measured at fair value – subsequent remeasurement in profit or loss

Underlying assets and liabilities at fair value

Goodwill included in initial cost

The equity method: Loss-making associate

If an investor's share of losses of an associate equals or exceeds its interest in the associate, the investor discontinues recognizing its share of further losses.

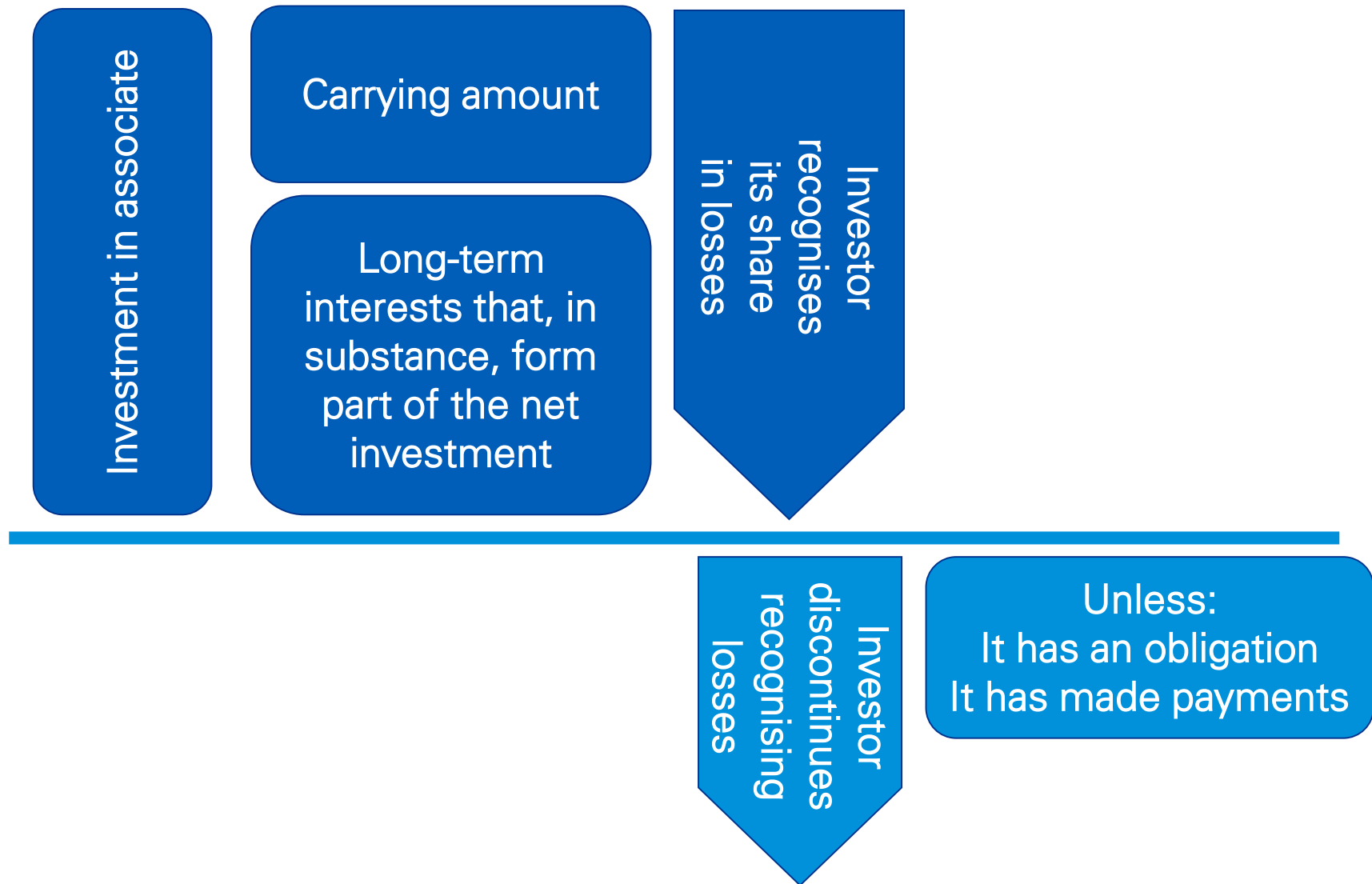
The interest in an associate is the carrying amount of the investment in the associate under the equity method together with any long-term interests that, in substance, form part of the investor's net investment in the associate.

The equity method: Loss-making associate

Losses recognized under the equity method in excess of the investor's investment in ordinary shares are applied to the other components of the investor's interest in an associate in the reverse order of their seniority (i.e., priority in liquidation).

After the investor's interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the associate.

The equity method: Loss-making associate summary



The equity method: Loss-making associate

If the associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.

Discontinuing the use of equity method

When the investor ceases to have significant influence, apply IAS 39 from that date provided the associate has not become subsidiary.

- If the investment becomes a subsidiary, the entity accounts for its investment in accordance with IFRS 3 Business Combinations and IFRS 10.
- If the retained interest is a financial asset, it is measured at fair value and subsequently accounted for under IFRS 9
- If an investment in an associate becomes an investment in a joint venture (or vice versa), the entity continues to apply the equity method and does not remeasure the retained interest. [IAS 28(2011).24]

Discontinue when the investment is classified as held for sale under IFRS 5.

Discontinuing the use of equity method

NB:

Any amounts recognised in other comprehensive income in relation to the investment in the associate or joint venture are accounted for on the same basis as if the investee had directly disposed of the related assets or liabilities (which may require reclassification to profit or loss).

Agenda

IFRS 12 – Disclosure of interest in other entities

IFRS 12 - Disclosure of interests in other entities

Introduction:

— Applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity.

Effective for periods beginning on or after 1 January 2013

Disclosures:

Disclose information that enables users of financial statements to evaluate:

1. The nature of, and risks associated with, its interests in other entities; and
2. The effects of those interests on its financial performance and cash flows

Disclosure Objectives

Disclose information that enables users of its financial statements to understand:

- The significant judgements and assumptions (and changes to those judgements and assumptions) made in determining the nature of its interest in another entity or arrangement and in determining the type of joint arrangement in which it has an interest; and
- The interest that non-controlling interests have in the group's activities and cash flows

Disclosure objectives

To evaluate:

- The nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group;
- The nature of, and changes in, the risks associated with its interests in consolidated structured entities;
- The nature and extent of its interests in unconsolidated structured entities, and the nature of, and changes in, the risks associated with those interest

Disclosure objectives



- The nature, extent and financial effects of its interests in joint arrangements and associates, and nature of the risks associated with those interests;
- The consequences of changes in a parent's ownership interest in a subsidiary that do not result in a loss of control; and
- The consequence of losing control of a subsidiary during the reporting period

Disclose for each of its subsidiaries

That have non-controlling interests that are material to the reporting entity:

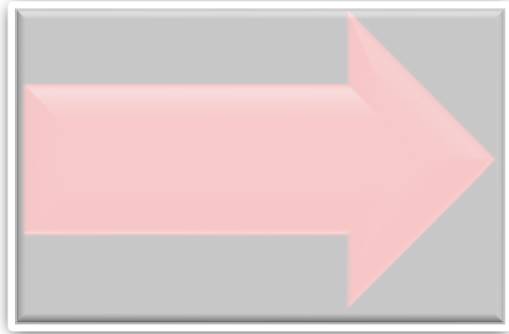
- The name of the subsidiary
- The principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary
- The proportion of ownership interests held by non-controlling interests



Disclosure about subsidiary

- The proportion of voting rights held by non-controlling interests, if different from the proportion of ownership interest held
- The profit or loss allocated to non-controlling interests of the subsidiary during the reporting period
- Accumulated non-controlling interests of the subsidiary at the end of the reporting period
- Summarised financial information about the subsidiary

Disclose



Significant restrictions (e.g. statutory, contractual and regulatory restrictions) on its ability to access or use the assets and settle the liabilities of the group, such as:

- Those that restrict 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

Questions?

