CONSOLIDATED FINANCIAL STATEMENTS

POCKET GUIDE TO IFRS 10

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PROJECT ACCOUNTANTS
The idea of success

INTRODUCTION

Scope of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

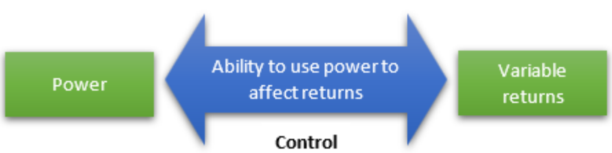
IFRS 10 requires:

- A parent entity (an entity that controls one or more other entities) to present consolidated financial statements
- defines the principle of control, and establishes control as the basis for consolidation
- set out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee
- sets out the accounting requirements for the preparation of consolidated financial statements
- defines an investment entity and sets out an exception to consolidating particular subsidiaries of an investment entity

CONTROL

Control is established when an investor has all the following elements:

- Power over the investee; (IFRS 10: 10 - 14)
- Exposure, or rights, to variable returns from its involvement with the investee; (IFRS 10: 15 - 16) and
- The ability to use its power, to affect the amount of the investor's returns. (IFRS 10: 17 - 18).



Power arises when an investor has an ability to direct relevant activities of an investee. It is linked to voting rights attached to the shares or any other contractual arrangements.

[IFRS 10 Definitions]

For the purpose of IFRS 10, relevant activities are those activities that significantly affect the investee's returns.

Relevant activities include (but are not limited to):

- Selling and purchasing of goods or services
- Managing financial assets during their life
- Selecting, acquiring or disposing of assets
- Researching/developing new products or processes
- Determining a funding structure or obtaining funding.

Decisions on relevant activities include (but are not limited to):

- Establishing operating and capital decisions & budgets
- Appointing, remunerating, and terminating an investee's key management personnel (KMP) or service providers.

An investor shall consider all facts and circumstances when assessing whether it controls an investee. The investor shall reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three aforementioned elements of establishing control over an investee.

Two or more investors collectively control an investee when they must act together to direct the relevant activities. In such cases, because no investor can direct the activities without the co-operation of the others, no investor individually controls the investee. Each investor would account for its interest in the investee in accordance with the relevant IFRSs, such as IFRS 11 Joint Arrangements, IAS 28 Investments in Associates and Joint Ventures or IFRS 9 Financial Instruments.

ACCOUNTING REQUIREMENTS

Preparation of consolidated financial statements

IFRS 10 superseded the consolidation requirements in IAS 27, Consolidated and Separate Financial Statements and SIC-12, Consolidation – Special Purpose Entities.

A parent prepares consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances. [IFRS 10:19]

A parent presents non-controlling interests in its consolidated statement of financial position within equity, separately from the equity of the owners of the parent. [IFRS 10:22]

Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions.

However, a parent need not present consolidated financial statements if it meets all of the following conditions: [IFRS 10:4(a)]

- it is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements
- its debt or equity instruments are not traded in a public market
- it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market, and
- its ultimate or any intermediate parent produces financial statements available for public use that comply with IFRSs, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10.

Disclosure

There are no disclosures specified in IFRS 10. Instead, IFRS 12 'Disclosure of Interests in Other Entities' outlines the disclosures required.

IFRS 12

A reporting entity should disclose significant judgements and assumptions made in determining whether it controls, jointly controls, significantly influences or has interests in other entities [IFRS 12:7]

OTHER MATTERS

- IFRS 10 introduces certain judgmental areas such as de facto control and principal-agent relationships

- IFRS 10 contains special accounting requirements for investment entities. Where an entity meets the definition of an 'investment entity', it does not consolidate its subsidiaries, or apply IFRS 3 Business Combinations when it obtains control of another entity. [IFRS 10:31]

- An entity is required to consider all facts and circumstances when assessing whether it is an investment entity, including its purpose and design. IFRS 10 provides that an investment entity should have the following typical characteristics [IFRS 10:28]:

  - it has more than one investment
  - it has more than one investor
  - it has investors that are not related parties of the entity
  - it has ownership interests in the form of equity or similar interests.

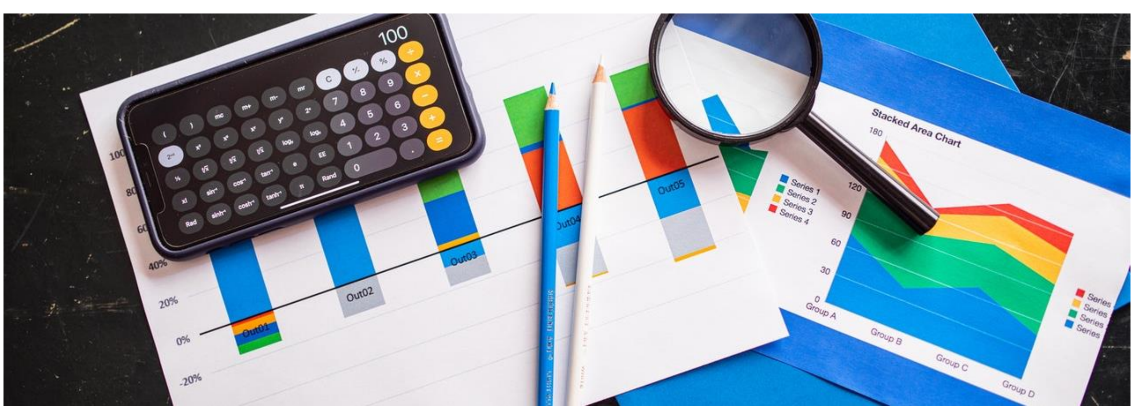
  The absence of any of these typical characteristics does not necessarily disqualify an entity from being classified as an investment entity.

  The exemption from consolidation only applies to the investment entity itself. Accordingly, a parent of an investment entity is required to consolidate all entities that it controls, including those controlled through an investment entity subsidiary, unless the parent itself is an investment entity. [IFRS 10:33]

- Reassessment of control is required if facts and circumstances indicate changes to the elements of control

- IFRS 10 highlights that control can change when:

  - decision-making mechanisms change;
  - events occur, even if they do not involve the investor;
  - an investor’s exposure or rights to variable returns change; and
  - the relationship between an agent and a principal changes.



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