Compiled AASB Standard –
RDR Early Application Only

AASB 127

Consolidated and Separate Financial Statements

This compiled Standard applies to annual reporting periods beginning on or after 1 July 2009 but before 1 January 2013 with early application of the Reduced Disclosure Requirements (RDR). It incorporates relevant amendments made up to and including 30 June 2010. RDR amendments cannot be applied to periods beginning before 1 July 2009.

Prepared on 3 August 2010 by the staff of the Australian Accounting Standards Board.

Australian Government

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Australian Accounting Standard AASB 127 *Consolidated and Separate Financial Statements* (as amended) is set out in paragraphs Aus1.1 – 45C. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in this Standard are in *italics* the first time they appear in the Standard. AASB 127 is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation and Application of Standards*, which identifies the Australian Accounting Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

COMPILATION DETAILS

Accounting Standard AASB 127 *Consolidated and Separate Financial Statements* as amended – RDR Early Application Only

This compiled Standard applies to annual reporting periods beginning on or after 1 July 2009 but before 1 January 2013 with early application of the Reduced Disclosure Requirements. It takes into account amendments up to and including 30 June 2010 and was prepared on 3 August 2010 by the staff of the Australian Accounting Standards Board (AASB).

This compilation is not a separate Accounting Standard made by the AASB. Instead, it is a representation of AASB 127 (March 2008) as amended by other Accounting Standards, which are listed in the Table below.

Table of Standards

Standard	**Date made**	**Application date *(annual reporting periods … on or after …)***	**Application, saving or transitional provisions**
AASB 127	6 Mar 2008	*(beginning)* 1 Jul 2009	see (a) below
AASB 2008-5	24 Jul 2008	*(beginning)* 1 Jan 2009	see (b) below
AASB 2008-7	25 Jul 2008	*(beginning)* 1 Jan 2009	see (c) below
AASB 2009-11	7 Dec 2009	*(beginning)* 1 Jan 2013	not compiled*
AASB 2010-2	30 Jun 2010	*(beginning)* 1 Jul 2013	see (d) below

* The amendments made by this Standard are not included in this compilation, which presents the principal Standard as applicable to annual reporting periods beginning on or after 1 July 2009 but before 1 January 2013 with early application of the Reduced Disclosure Requirements set out in AASB 2010-2.

(a) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 July 2009.

(b) Entities may elect to apply this Standard, or its amendments to individual Standards, to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009.

(c) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009.

(d) Entities may elect to apply this Standard (the RDR amendments) to annual reporting periods beginning on or after 1 July 2009 but before 1 July 2013, provided that AASB 1053 *Application of Tiers of Australian Accounting Standards* is also applied to such periods.

Table of Amendments

Paragraph affected	How affected	By … [paragraph]
Aus1.6-Aus1.8 (and preceding heading)	added	AASB 2010-2 [37]
4	amended	AASB 2008-7 [20]
38	amended	AASB 2008-5 [43]
38A-38C	added	AASB 2008-7 [21]
RDR43.1	added	AASB 2010-2 [37]
45A	added	AASB 2008-5 [44]
45B, 45C	added	AASB 2008-7 [22]

COMPARISON WITH IAS 27

AASB 127 and IAS 27

AASB 127 *Consolidated and Separate Financial Statements* as amended incorporates IAS 27 *Consolidated and Separate Financial Statements* as issued and amended by the International Accounting Standards Board (IASB). Paragraphs that have been added to this Standard (and do not appear in the text of IAS 27) are identified with the prefix “Aus” or “RDR”, generally followed by the number of the relevant IASB paragraph and decimal numbering. Paragraphs that have limited application begin by identifying their applicability.

Compliance with IAS 27

Entities other than public sector entities that comply with AASB 127 as amended will simultaneously be in compliance with IAS 27 as amended, with the exception of entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements.

ACCOUNTING STANDARD AASB 127 – RDR EARLY APPLICATION ONLY

The Australian Accounting Standards Board made Accounting Standard AASB 127 *Consolidated and Separate Financial Statements* under section 334 of the *Corporations Act 2001* on 6 March 2008.

This compiled version of AASB 127 applies to annual reporting periods beginning on or after 1 July 2009 but before 1 January 2013 with early application of the Reduced Disclosure Requirements. It incorporates relevant amendments contained in other AASB Standards made by the AASB up to and including 30 June 2010 (see Compilation Details).

ACCOUNTING STANDARD AASB 127

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Application

Aus1.1 This Standard applies to:

(a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;

(b) general purpose financial statements of each other reporting entity; and

(c) financial statements that are, or are held out to be, general purpose financial statements.

Aus1.2 This Standard applies to annual reporting periods beginning on or after 1 January 2005. Adoption of this Standard prior to 1 January 2005 is not permitted. Paragraphs 45 and Aus45.1 specify the application of the amendments to AASB 127 made in March 2008.

[Note: For application dates of paragraphs changed or added by an amending Standard, see Compilation Details.]

Aus1.3 The requirements specified in this Standard apply to the financial statements where information resulting from their

application is material in accordance with AASB 1031 *Materiality*.

Aus1.4 When applied or operative, this Standard supersedes AASB 127 *Consolidated and Separate Financial Statements* issued in July 2004 and amended to December 2007.

Aus1.5 As defined in AASB 101 *Presentation of Financial Statements*, reporting entities include local governments, governments and most, if not all, government departments.

Reduced disclosure requirements

Aus1.6 The following do not apply to entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements:

(a) paragraphs 41(b), 41(e), 41(f), 42, 43(b), 43(c) and Aus43.1; and

(b) in paragraph 43, the text "(other than a parent covered by paragraph 42)".

Entities applying Australian Accounting Standards – Reduced Disclosure Requirements may elect to comply with some or all of these excluded requirements.

Aus1.7 The requirements that do not apply to entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements are identified in this Standard by shading of the relevant text.

Aus1.8 The RDR paragraph in this Standard applies only to entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements.

Scope

1 This Standard shall be applied in the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent.

2 This Standard does not deal with methods of accounting for business combinations and their effects on consolidation, including goodwill

arising on a business combination (see AASB 3 *Business Combinations*).

3 **This Standard shall also be applied in accounting for investments in subsidiaries, jointly controlled entities and associates when an entity elects, or is required by local regulations, to present separate financial statements.**

Definitions

4 **The following terms are used in this Standard with the meanings specified:**

Consolidated financial statements **are the financial statements of a group presented as those of a single economic entity.**

Control **is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.**

A *group* is a parent and all its subsidiaries.

Non-controlling interest **is the equity in a subsidiary not attributable, directly or indirectly, to a parent.**

A *parent* is an entity that has one or more subsidiaries.

Separate financial statements **are those presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.**

A *subsidiary* is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).

5 A parent or its subsidiary may be an investor in an associate or a venturer in a jointly controlled entity. In such cases, consolidated financial statements prepared and presented in accordance with this Standard are also prepared so as to comply with AASB 128 *Investments in Associates* and AASB 131 *Interests in Joint Ventures*.

6 For an entity described in paragraph 5, separate financial statements are those prepared and presented in addition to the financial statements referred to in paragraph 5. Separate financial statements need not be appended to, or accompany, those statements.

Aus6.1 Notwithstanding paragraph 6, for the purpose of reporting under the Corporations Act, consolidated financial statements and separate financial statements are required to be presented together.

7 The financial statements of an entity that does not have a subsidiary, associate or venturer's interest in a jointly controlled entity are not separate financial statements.

8 A parent that is exempted in accordance with paragraph 10 from presenting consolidated financial statements may present separate financial statements as its only financial statements.

Presentation of consolidated financial statements

9 A parent, other than a parent described in paragraph 10, shall present consolidated financial statements in which it consolidates its investments in subsidiaries in accordance with this Standard.

Aus9.1 In certain instances in the public sector a group of entities (e.g. a government and its controlled entities) is a reporting entity, but the parent may not be explicitly identified for financial reporting purposes. This Standard does not deem a parent in such a group to be a separate reporting entity. Furthermore, this Standard does not require the preparation of separate financial statements for the parent, but does require consolidated financial statements to be presented.

10 A parent need not present consolidated financial statements if and only if:

(a) the parent is itself 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;

(b) the parent's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

(c) the parent 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

(d) the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with International Financial Reporting Standards.

Aus10.1 Notwithstanding paragraph 10, the ultimate Australian parent shall present consolidated financial statements that consolidate its investments in subsidiaries in accordance with this Standard when either the parent or the group is a reporting entity or both the parent and the group are reporting entities.

11 A parent that elects in accordance with paragraph 10 not to present consolidated financial statements, and presents only separate financial statements, complies with paragraphs 38-43.

Scope of consolidated financial statements

12 Consolidated financial statements shall include all subsidiaries of the parent.[1]

13 Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the parent owns half or less of the voting power of an entity when there is: [2]

(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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1 If on acquisition a subsidiary meets the criteria to be classified as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, it shall be accounted for in accordance with that Standard.

2 See also Interpretation 112 Consolidation – Special Purpose Entities, as identified in AASB 1048 Interpretation and Application of Standards.

14 An entity may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar instruments that have the potential, if exercised or converted, to give the entity voting power or reduce another party's voting power over the financial and operating policies of another entity (potential voting rights). The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by another entity, are considered when assessing whether an entity has the power to govern the financial and operating policies of another entity. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.

15 In assessing whether potential voting rights contribute to control, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual arrangements whether considered individually or in combination) that affect potential voting rights, except the intention of management and the financial ability to exercise or convert such rights.

16 A subsidiary is not excluded from consolidation simply because the investor is a venture capital organisation, mutual fund, unit trust or similar entity.

17 A subsidiary is not excluded from consolidation because its business activities are dissimilar from those of the other entities within the group. Relevant information is provided by consolidating such subsidiaries and disclosing additional information in the consolidated financial statements about the different business activities of subsidiaries. For example, the disclosures required by AASB 8 *Operating Segments* help to explain the significance of different business activities within the group.

Factors indicating control in the public sector

Paragraphs Aus17.1-Aus17.10 of this Standard apply only to public sector entities.

Aus17.1 This Standard does not attempt to identify all groups in the public sector that should prepare financial statements. Instead, it describes the factors that are considered in determining whether one entity has the power to govern the financial and operating policies of another entity, whether a group exists and whether that group constitutes a reporting entity. In addition, the Standard identifies the accounting techniques that are employed when the financial statements of a number of separate entities are to be combined. This approach avoids the prescriptive designation of artificial reporting entities and the resulting preparation of meaningless consolidated financial statements.

Aus17.2 In the public sector, a parent/subsidiary relationship could be established in the manner outlined in paragraph 13 or, as is more frequently the case, control of another entity by the government may be indicated by the following two factors:

(a) the other entity is accountable to Parliament, or to the Executive, or to a particular Minister; and

(b) the government has the residual financial interest in the net assets of the other entity.

Accountability of the other entity to Parliament, or to the Executive, or to a particular Minister

Aus17.3 The existence of one, or a combination of a number of the following circumstances, indicate that an entity is accountable to Parliament, or to the Executive, or to a particular Minister:

(a) the existence of a Ministerial or other government power that enables the government to give directions to the governing body of that entity so that the entity acts as an agent of the government to achieve government policy objectives;

(b) Ministerial approval is required for operating budgets;

(c) the government has the ability to veto operating and capital budgets of that entity;

(d) the government has broad discretion, under existing legislation, to appoint or remove a majority of members of the governing body of that entity. This would include for example, the power of the Minister or a central authority to appoint and remove members of the board of management. The governing body of an entity cannot maintain financial and operating policies that do not have the support of a government if the government has the power under existing legislation to appoint or remove a majority of members of the governing body of the entity. In these circumstances, the government has the power to govern the financial and operating policies so as to meet its own objectives. For control to exist through the power to appoint or remove a majority of members of the governing body of another entity, a government must have broad discretion over their appointment and removal. For example, if the power to appoint or remove a majority of members of the governing body requires an amendment to the current legislation or the creation of new legislation, then the government's power is not presently exercisable and control does not exist. Also, where the power of the government to remove members of the governing body of another entity only arises under certain restricted circumstances (for example, for reasons relating to a lack of probity), the government would not have the power to govern the financial and operating policies of the entity by virtue of that power (although it may have the power in respect of the financial and operating policies through some other means);

(e) the entity is required to submit to Parliament reports on operations that include audited financial statements; such requirements arising either under the general reporting requirements of legislation concerned with financial reporting and/or audit of public sector entities or under that entity's enabling legislation; or

(f) the mandate of the entity is established, or limited, by its enabling legislation. The definition of control requires only that the government's power to govern the financial and operating policies of another entity is sufficient to enable the government to obtain benefits from the entity's activities. Enabling legislation relating to the other entity which establishes the broad financial and operating policies of the entity is sufficient to ensure control by the government. However, the impact of enabling legislation also needs to be evaluated in the light of other prevailing circumstances. For example, a marketing board whose mandate is created, and limited, by legislation is not controlled by a government if the legislation unequivocally assigns power to govern financial and operating policies to other entities such as relevant commodity producers, and the government does not have the power to appoint or remove a majority of members of the governing body.

Residual financial interest in the net assets of the other entity by the government

Aus17.4 The existence of the following circumstances indicates whether the government has a residual financial interest in the net assets of the other entity:

(a) the government is exposed to the residual liabilities of the entity; or

(b) the government has the right to receive the residual net assets of the entity if that entity is dissolved.

General implications of the concept of control in the public sector

Aus17.5 In the public sector, reporting entities may include Ministerial portfolios, Ministerial departments, statutory authorities or other entities. In some cases the reporting entity may comprise a parent and a number of controlled entities, and in other cases the reporting entity may be the parent or the controlled entity itself.

Aus17.6 A government will usually control the statutory authorities or corporations that it has established, because the legislation will normally address the financial and operating policies necessary to enable the entity to work with the government in achieving its objectives.

Aus17.7 In determining the existence of a group in the public sector, consideration should be given to the controlling entity's ability to deploy the resources under its control and whether there are restrictions on the allocation of funds between activities under its authority. In addition, the ability of the entities to operate for the benefit of the controlling entity is a central characteristic of a group. If an entity is precluded from operating for the benefit of the controlling entity, for example, through the existence of separate administrations, it is clear that the entity would not be included in the group. A Minister may have responsibility for more than one function. Those functions may be encompassed in a single portfolio or administered through a number of portfolios. The specification of separate objectives for each function will usually be an indication of the existence of separate economic entities, regardless of whether the functions are combined in the one portfolio or administered separately through more than one portfolio. Similarly, the financial statements of individual local governments would not be aggregated for the purpose of preparing financial statements in each State or Territory because the combination of such local government bodies would fail to satisfy the definition of a group.

Aus17.8 For a government to control an entity, it must have the power to require an entity's assets to be deployed towards achieving government objectives. This may mean, but need not require, that the government can do, or require the entity to do, one or more of the following with the controlled entity's assets:

(a) exchange them;

(b) use them to provide goods and services consistent with the government's objectives;

(c) charge for their use;

(d) use them to settle liabilities; or

(e) hold them.

Aus17.9 Accordingly, a government does not control another entity where:

(a) it cannot dominate the financial and operating policies of the entity that are necessary to enable the entity to operate towards achieving government objectives, notwithstanding that both entities have similar objectives. For example, a government and a charitable entity funded by that government may share common objectives with respect to care of the homeless. However, the charitable entity is not controlled by the government when its governing body maintains discretion as to how its resources are to be deployed and whether it will accept resources from the government;

(b) it cannot benefit from the resources or residual resources of the entity, notwithstanding that it may have the power to govern the entity's financial and operating policies. For example, where a government acts as a trustee for a trust and its relationship with the trust does not extend beyond the normal responsibilities of a trustee, the government does not control the trust as it cannot deploy the resources or residual resources of the trust for its own benefit;

(c) it influences, rather than governs, the financial and operating policies required to enable the entity to operate towards achieving the government's objectives. The wide ranging powers of governments mean that they can influence the financial and operating policies of many entities, particularly those which are financially dependent on government funding. However, where the governing bodies of those entities maintain discretion with respect to whether they will accept resources from the government, or the manner in which their resources are to be deployed, they are not controlled by the government. For example, this will normally be the case with religious organisations that provide aged-care services. While these organisations may receive government grants for capital construction and operating costs, and the government providing the grant may require them to comply with certain service standards and restrictions on user fees, they will not usually be controlled by the government because their governing body will maintain the ultimate discretion about whether assets are deployed to those services. Furthermore, while private schools, private hospitals, individual local governments and universities may be financially dependent, to a greater or lesser degree, on governments or agencies thereof, they would not be considered to be controlled by those governments or agencies for the purposes of this Standard. Therefore, this Standard does not require that the financial statements of such entities be consolidated with the financial statements of a government or government agency;

(d) it merely has the power to regulate the behaviour of the entity by use of its legislative powers. The power of government to establish the regulatory environment within which entities operate and to impose conditions or sanctions on their operations does not of itself constitute control of the assets deployed by those entities. For example, governments regulate the operations of entities operating in the gaming industry, but those entities are not controlled by government unless the assets or residual assets of those entities can be deployed for the benefit of government; or

(e) its ability to redeploy the assets of another entity for its own benefit is not presently exercisable. For example, under existing legislative arrangements, State and Territory governments do not control local governments because:

    (i) they cannot sell the assets of a local government and redeploy the proceeds from the sale towards the State or Territory budget; and

    (ii) the governing body of the local government, whether an elected council or administrators appointed by a government, is bound to deploy its assets for the benefit of the local community (and not the State or Territory government).

Control versus day-to-day management by government

Aus17.10 The existence of control for the purpose of this Standard does not require that the government has responsibility over the day-to-day operations of an entity, or the manner in which professional functions are performed by the entity. For example, the legislation governing the establishment and operation of an independent statutory office (such as that of the Auditor-General) sets out the broad parameters within which the office is required to operate, and enables the office to operate in a manner consistent with the objectives set by Parliament for the operation of government. Similarly, notwithstanding the operational independence of the judiciary from the Parliament, the legislative framework within which the judiciary operates is established in a manner consistent with the objectives set by Parliament for the administration of justice. In addition, the government retains the right to the residual assets of statutory offices and judicial entities. Notwithstanding the absence of responsibility for the day-to-day operations of such entities, or the manner in which professional functions are performed in those entities, their assets, liabilities, revenues and expenses are included in the financial statements of the relevant government.

Consolidation procedures

18 In preparing consolidated financial statements, an entity combines the financial statements of the parent and its subsidiaries line by line by adding together like items of assets, liabilities, equity, income and expenses. In order that the consolidated financial statements present financial information about the group as that of a single economic entity, the following steps are then taken:

(a) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary are eliminated (see AASB 3, which describes the treatment of any resultant goodwill);

(b) non-controlling interests in the profit or loss of consolidated subsidiaries for the reporting period are identified; and

(c) non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the parent's ownership interests in them. Non-controlling interests in the net assets consist of:

(i) the amount of those non-controlling interests at the date of the original combination calculated in accordance with AASB 3; and

(ii) the non-controlling interests' share of changes in equity since the date of the combination.

19 When potential voting rights exist, the proportions of profit or loss and changes in equity allocated to the parent and non-controlling interests are determined on the basis of present ownership interests and do not reflect the possible exercise or conversion of potential voting rights.

20 Intragroup balances, transactions, income and expenses shall be eliminated in full.

21 Intragroup balances and transactions, including income, expenses and dividends, are eliminated in full. Profits and losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full. Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements. AASB 112 *Income Taxes* applies to temporary differences that arise from the elimination of profits and losses resulting from intragroup transactions.

22 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 date. When the end of the reporting period of the parent is different from that of a subsidiary, the subsidiary prepares, for consolidation purposes, additional financial statements as of the same date as the financial statements of the parent unless it is impracticable to do so.

23 When, in accordance with paragraph 22, the financial statements of a subsidiary used in the preparation of consolidated financial statements are prepared as of a date different from that of the parent's financial statements, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the parent's financial statements. In any case, the difference between the end of the reporting period of the subsidiary and that of the parent shall be no more than three months. The length of the reporting periods and any difference between the ends of the reporting periods shall be the same from period to period.

24 Consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances.

25 If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

26 The income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date as defined in AASB 3. Income and expenses of the subsidiary shall be based on the values of the assets and liabilities recognised in the parent's consolidated financial statements at the acquisition date. For example, depreciation expense recognised in the consolidated statement of comprehensive income after the acquisition date shall be based on the fair values of the related depreciable assets recognised in the consolidated financial statements at the acquisition date. The income and expenses of a subsidiary are included in the consolidated financial statements until the date when the parent ceases to control the subsidiary.

27 Non-controlling interests shall be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent.

28 Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

29 If a subsidiary has outstanding cumulative preference shares that are classified as equity and are held by non-controlling interests, the parent computes its share of profit or loss after adjusting for the dividends on such shares, whether or not dividends have been declared.

30 Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners).

31 In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognised directly in equity and attributed to the owners of the parent.

Loss of control

32 A parent can lose control of a subsidiary with or without a change in absolute or relative ownership levels. This could occur, for example, when a subsidiary becomes subject to the control of a government, court, administrator or regulator. It also could occur as a result of a contractual agreement.

33 A parent might lose control of a subsidiary in two or more arrangements (transactions). However, sometimes circumstances indicate that the multiple arrangements should be accounted for as a single transaction. In determining whether to account for the arrangements as a single transaction, a parent shall consider all of the terms and conditions of the arrangements and their economic effects. One or more of the following may indicate that the parent should account for the multiple arrangements as a single transaction:

(a) They are entered into at the same time or in contemplation of each other.

(b) They form a single transaction designed to achieve an overall commercial effect.

(c) The occurrence of one arrangement is dependent on the occurrence of at least one other arrangement.

(d) One arrangement considered on its own is not economically justified, but it is economically justified when considered together with other arrangements. An example is when one disposal of shares is priced below market and is compensated for by a subsequent disposal priced above market.

34 If a parent loses control of a subsidiary, it:

(a) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;

(b) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them);

(c) recognises:

(i) the fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control; and

(ii) if the transaction that resulted in the loss of control involves a distribution of shares of the subsidiary to owners in their capacity as owners, that distribution;

(d) recognises any investment retained in the former subsidiary at its fair value at the date when control is lost;

(e) reclassifies to profit or loss, or transfers directly to retained earnings if required in accordance with other Australian Accounting Standards, the amounts identified in paragraph 35; and

(f) recognises any resulting difference as a gain or loss in profit or loss attributable to the parent.

35 If a parent loses control of a subsidiary, the parent shall account for all amounts recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the parent had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the parent reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary. For example, if a subsidiary has available-for-sale financial assets and the parent loses control of the subsidiary, the parent shall reclassify to profit or loss the gain or loss previously recognised in other comprehensive income in relation to those assets. Similarly, if a revaluation surplus previously recognised in other comprehensive income would be transferred directly to retained earnings on the disposal of the asset, the parent transfers the revaluation surplus directly to retained earnings when it loses control of the subsidiary.

36 On the loss of control of a subsidiary, any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary shall be accounted for in accordance with other Australian Accounting Standards from the date when control is lost.

37 The fair value of any investment retained in the former subsidiary at the date when control is lost shall be regarded as the fair value on initial recognition of a financial asset in accordance with AASB 139 *Financial Instruments: Recognition and Measurement* or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Accounting for investments in subsidiaries, jointly controlled entities and associates in separate financial statements

38 When an entity prepares separate financial statements, it shall account for investments in subsidiaries, jointly controlled entities and associates either:

(a) at cost, or

(b) in accordance with AASB 139.

The entity shall apply the same accounting for each category of investments. Investments accounted for at cost shall be accounted for in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* when they are classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with AASB 5. The measurement of investments accounted for in accordance with AASB 139 is not changed in such circumstances.

38A An entity shall recognise a dividend from a subsidiary, jointly controlled entity or associate in profit or loss in its separate financial statements when its right to receive the dividend is established.

38B When a parent reorganises the structure of its group by establishing a new entity as its parent in a manner that satisfies the following criteria:

(a) the new parent obtains control of the original parent by issuing equity instruments in exchange for existing equity instruments of the original parent;

(b) the assets and liabilities of the new group and the original group are the same immediately before and after the reorganisation; and

(c) the owners of the original parent before the reorganisation have the same absolute and relative interests in the net assets of the original group and the new group immediately before and after the reorganisation

and the new parent accounts for its investment in the original parent in accordance with paragraph 38(a) in its separate financial statements, the new parent shall measure cost at the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the date of the reorganisation.

38C Similarly, an entity that is not a parent might establish a new entity as its parent in a manner that satisfies the criteria in paragraph 38B. The requirements in paragraph 38B apply equally to such reorganisations. In such cases, references to 'original parent' and 'original group' are to the 'original entity'.

39 This Standard does not mandate which entities produce separate financial statements available for public use. Paragraphs 38 and 40-43 apply when an entity prepares separate financial statements that comply with Australian Accounting Standards. The entity also produces consolidated financial statements available for public use as required by paragraph 9, unless the exemption provided in paragraph 10 is applicable.

40 Investments in jointly controlled entities and associates that are accounted for in accordance with AASB 139 in the consolidated financial statements shall be accounted for in the same way in the investor's separate financial statements.

Disclosure

41 The following disclosures shall be made in consolidated financial statements:

(a) the nature of the relationship between the parent and a subsidiary when the parent does not own, directly or indirectly through subsidiaries, more than half of the voting power;

(b) the reasons why the ownership, directly or indirectly through subsidiaries, of more than half of the voting or potential voting power of an investee does not constitute control;

(c) the end of the reporting period of the financial statements of a subsidiary when such financial statements are used to prepare consolidated financial statements and are as of a date or for a period that is different from that of the parent's financial statements, and the reason for using a different date or period;

(d) the nature and extent of any significant restrictions (e.g. 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 or advances;

(e) a schedule that shows the effects of any changes in a parent's ownership interest in a subsidiary that do not result in a loss of control on the equity attributable to owners of the parent; and

(f) if control of a subsidiary is lost, the parent shall disclose the gain or loss, if any, recognised in accordance with paragraph 34, and:

(i) the portion of that gain or loss attributable to recognising any investment retained in the former subsidiary at its fair value at the date when control is lost; and

(ii) the line item(s) in the statement of comprehensive income in which the gain or loss is recognised (if not presented separately in the statement of comprehensive income).

42 When separate financial statements are prepared for a parent that, in accordance with paragraph 10, elects not to prepare consolidated financial statements, those separate financial statements shall disclose:

(a) the fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name and country of incorporation or residence of the entity whose consolidated financial statements that comply with International Financial Reporting Standards have been produced for public use; and the address where those consolidated financial statements are obtainable;

(b) a list of significant investments in subsidiaries, jointly controlled entities and associates, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held; and

(c) a description of the method used to account for the investments listed under (b).

43 When a parent (other than a parent covered by paragraph 42), venturer with an interest in a jointly controlled entity or an

investor in an associate prepares separate financial statements, those separate financial statements shall disclose:

(a) the fact that the statements are separate financial statements and the reasons why those statements are prepared if not required by law;

(b) a list of significant investments in subsidiaries, jointly controlled entities and associates, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held; and

(c) a description of the method used to account for the investments listed under (b);

and shall identify the financial statements prepared in accordance with paragraph 9 of this Standard or AASB 128 and AASB 131 to which they relate.

RDR43.1 A parent, venturer with an interest in a jointly controlled entity or an investor in an associate, that prepares separate financial statements applying Australian Accounting Standards – Reduced Disclosure Requirements, shall disclose a description of the methods used to account for the investments in subsidiaries, jointly controlled entities and associates.

Aus43.1 In respect of not-for-profit public sector entities, where a group of entities is a reporting entity, but separate financial statements for the parent are not prepared, the notes to the consolidated financial statements shall disclose a list of significant subsidiaries, including:

(a) the name;

(b) country of incorporation or residence (where other than Australia); and

(c) proportion of ownership interest and, if different, proportion of voting power held.

Effective date and transition

44 [Deleted by the AASB]

45 **An entity shall apply the amendments to AASB 127 made in March 2008 in paragraphs 4, 18, 19, 26-37 and 41(e) and (f) for annual periods beginning on or after 1 July 2009. Earlier application is permitted. However, an entity shall not apply these amendments for annual periods beginning before 1 July 2009 unless it also applies AASB 3 (as revised in March 2008). If an entity applies the amendments before 1 July 2009, it shall disclose that fact. An entity shall apply the amendments retrospectively, with the following exceptions:**

(a) the amendment to paragraph 28 for attributing total comprehensive income to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Therefore, an entity shall not restate any profit or loss attribution for reporting periods before the amendment is applied.

(b) the requirements in paragraphs 30 and 31 for accounting for changes in ownership interests in a subsidiary after control is obtained. Therefore, the requirements in paragraphs 30 and 31 do not apply to changes that occurred before an entity applies the amendments.

(c) the requirements in paragraphs 34-37 for the loss of control of a subsidiary. An entity shall not restate the carrying amount of an investment in a former subsidiary if control was lost before it applies those amendments. In addition, an entity shall not recalculate any gain or loss on the loss of control of a subsidiary that occurred before the amendments are applied.

Aus45.1 **Paragraphs Aus17.1-Aus17.10 may be applied to annual reporting periods beginning on or after 1 January 2005 but beginning before 1 July 2008, provided there is early adoption for the same annual reporting period of the following pronouncements, as applicable:**

(a) AASB 1004 *Contributions*;

(b) AASB 1049 *Whole of Government and General Government Sector Financial Reporting*;

(c) AASB 1050 *Administered Items*;

(d) AASB 1051 *Land Under Roads*;

(e) AASB 1052 *Disaggregated Disclosures*; and

(f) **AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*.**

45A Paragraph 38 was amended by AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* issued in July 2008. An entity shall apply that amendment for annual reporting periods beginning on or after 1 January 2009, prospectively from the date at which it first applied AASB 5. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

45B AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*, issued in July 2008, deleted the definition of the cost method from paragraph 4 and added paragraph 38A. An entity shall apply those amendments prospectively for annual reporting periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the changes for an earlier period, it shall disclose that fact and apply the related amendments to AASB 118, AASB 121 and AASB 136 at the same time.

45C AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*, issued in July 2008, added paragraphs 38B and 38C. An entity shall apply those paragraphs prospectively to reorganisations occurring in annual reporting periods beginning on or after 1 January 2009. Earlier application is permitted. In addition, an entity may elect to apply paragraphs 38B and 38C retrospectively to past reorganisations within the scope of those paragraphs. However, if an entity restates any reorganisation to comply with paragraph 38B or 38C, it shall restate all later reorganisations within the scope of those paragraphs. If an entity applies paragraph 38B or 38C for an earlier period, it shall disclose that fact.

Withdrawal of IAS 27 (2003)

46 [Deleted by the AASB]

IMPLEMENTATION GUIDANCE

Guidance on implementing AASB 127 *Consolidated and Separate Financial Statements*, AASB 128 *Investments in Associates* and AASB 131 *Interests in Joint Ventures*

This guidance accompanies AASB 127, AASB 128 and AASB 131, but is not part of them.

Consideration of potential voting rights

Introduction

IG1 Paragraphs 14, 15 and 19 of AASB 127 *Consolidated and Separate Financial Statements* (as amended in March 2008) and paragraphs 8 and 9 of AASB 128 *Investments in Associates* require an entity to consider the existence and effect of all potential voting rights that are currently exercisable or convertible. They also require all facts and circumstances that affect potential voting rights to be examined, except the intention of management and the financial ability to exercise or convert potential voting rights. Because the definition of joint control in paragraph 3 of AASB 131 *Interests in Joint Ventures* depends upon the definition of control, and because that Standard is linked to AASB 128 for application of the equity method, this guidance is also relevant to AASB 131.

Guidance

IG2 Paragraph 4 of AASB 127 defines control as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Paragraph 2 of AASB 128 defines significant influence as the power to participate in the financial and operating policy decisions of the investee but not to control those policies. Paragraph 3 of AASB 131 defines joint control as the contractually agreed sharing of control over an economic activity. In these contexts, power refers to the ability to do or effect something. Consequently, an entity has control, joint control or significant influence when it currently has the ability to exercise that power, regardless of whether control, joint control or significant influence is actively demonstrated or is passive in nature. Potential voting rights held by an entity that are currently exercisable or convertible provide this ability. The ability to exercise power does not exist when potential voting rights lack economic substance (e.g. the exercise price is set in a manner that precludes exercise or conversion in any feasible scenario).

Consequently, potential voting rights are considered when, in substance, they provide the ability to exercise power.

IG3 Control and significant influence also arise in the circumstances described in paragraph 13 of AASB 127 and paragraphs 6 and 7 of AASB 128 respectively, which include consideration of the relative ownership of voting rights. AASB 131 depends on AASB 127 and AASB 128 and references to AASB 127 and AASB 128 from this point onwards should be read as being relevant to AASB 131. Nevertheless it should be borne in mind that joint control involves contractual sharing of control and this contractual aspect is likely to be the critical determinant. Potential voting rights such as share call options and convertible debt are capable of changing an entity's voting power over another entity – if the potential voting rights are exercised or converted, then the relative ownership of the ordinary shares carrying voting rights changes. Consequently, the existence of control (the definition of which permits only one entity to have control of another entity) and significant influence are determined only after assessing all the factors described in paragraph 13 of AASB 127 and paragraphs 6 and 7 of AASB 128 respectively, and considering the existence and effect of potential voting rights. In addition, the entity examines all facts and circumstances that affect potential voting rights except the intention of management and the financial ability to exercise or convert such rights. The intention of management does not affect the existence of power and the financial ability of an entity to exercise or convert potential voting rights is difficult to assess.

IG4 An entity may initially conclude that it controls or significantly influences another entity after considering the potential voting rights that it can currently exercise or convert. However, the entity may not control or significantly influence the other entity when potential voting rights held by other parties are also currently exercisable or convertible. Consequently, an entity considers all potential voting rights held by it and by other parties that are currently exercisable or convertible when determining whether it controls or significantly influences another entity. For example, all share call options are considered, whether held by the entity or another party. Furthermore, the definition of control in paragraph 4 of AASB 127 permits only one entity to have control of another entity. Therefore, when two or more entities each hold significant voting rights, both actual and potential, the factors in paragraph 13 of AASB 127 are reassessed to determine which entity has control.

IG5 The proportion allocated to the parent and non-controlling interests in preparing consolidated financial statements in accordance with AASB 127, and the proportion allocated to an investor that accounts for its investment using the equity method in accordance with

AASB 128, are determined solely on the basis of present ownership interests. The proportion allocated is determined taking into account the eventual exercise of potential voting rights and other derivatives that, in substance, give access at present to the economic benefits associated with an ownership interest.

IG6 In some circumstances an entity has, in substance, a present ownership as a result of a transaction that gives it access to the economic benefits associated with an ownership interest. In such circumstances, the proportion allocated is determined taking into account the eventual exercise of those potential voting rights and other derivatives that give the entity access to the economic benefits at present.

IG7 AASB 139 *Financial Instruments: Recognition and Measurement* does not apply to interests in subsidiaries, associates and jointly controlled entities that are consolidated, accounted for using the equity method or proportionately consolidated in accordance with AASB 127, AASB 128 and AASB 131 respectively. When instruments containing potential voting rights in substance currently give access to the economic benefits associated with an ownership interest, and the investment is accounted for in one of the above ways, the instruments are not subject to the requirements of AASB 139. In all other cases, instruments containing potential voting rights are accounted for in accordance with AASB 139.

Illustrative examples

IG8 The five examples below each illustrate one aspect of a potential voting right. In applying AASB 127, AASB 128 or AASB 131, an entity considers all aspects. The existence of control, significant influence and joint control can be determined only after assessing the other factors described in AASB 127, AASB 128 and AASB 131. For the purpose of these examples, however, those other factors are presumed not to affect the determination, even though they may affect it when assessed.

Example 1: Options are out of the money

Entities A and B own 80 per cent and 20 per cent respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity C. Entity A sells one-half of its interest to Entity D and buys call options from Entity D that are exercisable at any time at a premium to the market price when issued, and if exercised would give Entity A its original 80 per cent ownership interest and voting rights.

Though the options are out of the money, they are currently exercisable and give Entity A the power to continue to set the operating and financial policies of Entity C, because Entity A could exercise its options now. The existence of the potential voting rights, as well as the other factors described in paragraph 13 of AASB 127, are considered and it is determined that Entity A controls Entity C.

Example 2: Possibility of exercise or conversion

Entities A, B and C own 40 per cent, 30 per cent and 30 per cent respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity D. Entity A also owns call options that are exercisable at any time at the fair value of the underlying shares and if exercised would give it an additional 20 per cent of the voting rights in Entity D and reduce Entity B's and Entity C's interests to 20 per cent each. If the options are exercised, Entity A will have control over more than one-half of the voting power. The existence of the potential voting rights, as well as the other factors described in paragraph 13 of AASB 127 and paragraphs 6 and 7 of AASB 128, are considered and it is determined that Entity A controls Entity D.

Example 3: Other rights that have the potential to increase an entity's voting power or reduce another entity's voting power

Entities A, B and C own 25 per cent, 35 per cent and 40 per cent respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity D. Entities B and C also have share warrants that are exercisable at any time at a fixed price and provide potential voting rights. Entity A has a call option to purchase these share warrants at any time for a nominal amount. If the call option is exercised, Entity A would have the potential to increase its ownership interest, and thereby its voting rights, in Entity D to 51 per cent (and dilute Entity B's interest to 23 per cent and Entity C's interest to 26 per cent).

Although the share warrants are not owned by Entity A, they are considered in assessing control because they are currently exercisable by Entities B and C. Normally, if an action (e.g. purchase or exercise of another right) is required before an entity has ownership of a potential voting right, the potential voting right is not regarded as held by the entity. However, the share warrants are, in substance, held by Entity A, because the terms of the call option are designed to ensure Entity A's position. The combination of the call option and share warrants gives Entity A the power to set the operating and financial policies of Entity D, because Entity A could currently exercise the option and share warrants. The other factors described in paragraph 13 of AASB 127 and paragraphs 6 and 7 of AASB 128 are also considered, and it is determined that Entity A, not Entity B or C, controls Entity D.

Example 4: Management intention

Entities A, B and C each own 33⅓ per cent of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity D. Entities A, B and C each have the right to appoint two directors to the board of Entity D. Entity A also owns call options that are exercisable at a fixed price at any time and if exercised would give it all the voting rights in Entity D. The management of Entity A does not intend to exercise the call options, even if Entities B and C do not vote in the same manner as Entity A. The existence of the potential voting rights, as well as the other factors described in paragraph 13 of AASB 127 and paragraphs 6 and 7 of AASB 128, are considered and it is determined that Entity A controls Entity D. The intention of Entity A's management does not influence the assessment.

Example 5: Financial ability

Entities A and B own 55 per cent and 45 per cent respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity C. Entity B also holds debt instruments that are convertible into ordinary shares of Entity C. The debt can be converted at a substantial price, in comparison with Entity B's net assets, at any time and if converted would require Entity B to borrow additional funds to make the payment. If the debt were to be converted, Entity B would hold 70 per cent of the voting rights and Entity A's interest would reduce to 30 per cent.

Although the debt instruments are convertible at a substantial price, they are currently convertible and the conversion feature gives Entity B the power to set the operating and financial policies of Entity C. The existence of the potential voting rights, as well as the other factors described in paragraph 13 of AASB 127, are considered and it is determined that Entity B, not Entity A, controls Entity C. The financial ability of Entity B to pay the conversion price does not influence the assessment.

DELETED IAS 27 TEXT

Deleted IAS 27 text is not part of AASB 127.

Paragraph 44

An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2005, it shall disclose that fact.

Paragraph 46

This Standard supersedes IAS 27 *Consolidated and Separate Financial Statements* (as revised in 2003).