Compiled Accounting Standard **AASB 127**

Consolidated and Separate Financial Statements

This compiled Standard applies to annual reporting periods beginning on or after 1 July 2007. Early application is permitted. It incorporates relevant amendments made up to and including July 2007.

Prepared on 25 October 2007 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 – Aus42.1. All the paragraphs have equal authority. 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

This compiled Standard applies to annual reporting periods beginning on or after 1 July 2007. It takes into account amendments up to and including July 2007 and was prepared on 25 October 2007 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 (July 2004) 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	15 Jul 2004	*(beginning)* 1 Jan 2005	
AASB 2007-2	15 Feb 2007	*(ending)* 28 Feb 2007	see (a) below
AASB 2007-3	26 Feb 2007	*(beginning)* 1 Jan 2009	not compiled*
AASB 2007-4	30 Apr 2007	*(beginning)* 1 Jul 2007	see (b) below
Erratum	Jul 2007	*(beginning)* 1 Jul 2007	see (c) below
AASB 2007-8	24 Sep 2007	*(beginning)* 1 Jan 2009	not compiled*

* 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 2007.

(a) Entities may elect to apply the relevant amendments to annual reporting periods beginning on or after 1 January 2005 that end before 28 February 2007.

(b) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 July 2007.

(c) Entities may elect to apply the Erratum amendments to annual reporting periods beginning on or after 1 January 2005 but before 1 July 2007.

Table of Amendments to Standard

Paragraph affected	**How affected**	**By … [paragraph]**
3	amended	AASB 2007-4 [62]
4	amended	AASB 2007-4 [63]

Paragraph affected	How affected	By … [paragraph]
6	amended	AASB 2007-4 [62]
Aus6.1	added	AASB 2007-4 [62]
7	amended	AASB 2007-4 [62]
8	added	AASB 2007-4 [62]
9	added	AASB 2007-4 [64]
Aus9.1	deleted	AASB 2007-4 [65]
Aus9.2	renumbered as Aus9.1	AASB 2007-4 [65]
10	added	AASB 2007-4 [64]
Aus10.1	added	AASB 2007-4 [64]
11	added	AASB 2007-4 [64]
13 (footnote 2)	amended	AASB 2007-2 [10]
Aus27.1	deleted	AASB 2007-4 [66]
38	amended	AASB 2007-4 [67]
39	amended	AASB 2007-4 [67]
Aus40.1	deleted	AASB 2007-4 [69]
41	added	AASB 2007-4 [68]
42	amended	AASB 2007-4 [68]
Aus42.1	amended	AASB 2007-4 [68]
Aus42.2	deleted	AASB 2007-4 [69]

Table of Amendments to Implementation Guidance

Paragraph affected	How affected	By … [paragraph]
IG7	amended	Erratum, Jul 2007 *

* Accounting Standard AASB 2007-4 *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments* inserted into AASB Standards the option to use proportionate consolidation for accounting for interests in jointly controlled entities. The Erratum "Proportionate Consolidation" was issued in July 2007 to insert additional references to proportionate consolidation into Standards and Interpretations.

COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS

AASB 127 and IAS 27

AASB 127 as amended is equivalent to IAS 27 *Consolidated and Separate Financial Statements* as issued and amended by the IASB. Paragraphs that have been added to this Standard (and do not appear in the text of the equivalent IASB Standard) are identified with the prefix "Aus", followed by the number of the relevant IASB paragraph and decimal numbering.

The AASB has decided to reproduce as part of this Standard the guidance relating to public sector entities within AAS 24 (see paragraphs Aus13.1-Aus13.5). This guidance has been amended to more appropriately align the paragraphs with the language used in AASB 127.

Compliance with IAS 127

Entities that comply with AASB 127 as amended will simultaneously be in compliance with IAS 27 as amended.

AASB 127 and IPSAS 6

International Public Sector Accounting Standards (IPSASs) are issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants.

IPSAS 6 *Consolidated Financial Statements and Accounting for Controlled Entities* (May 2000) is drawn primarily from the 1994 version of IAS 27. The main differences between IPSAS 6 and AASB 127 are:

(a) AASB 127 does not exclude a subsidiary from consolidation on the basis of temporary control.[1] Nor is a subsidiary excluded from consolidation simply because that entity is operating under severe long-term restrictions that significantly impair its ability to transfer funds to the parent. Control must be lost for exclusion to occur. In contrast, IPSAS 6 requires subsidiaries to be excluded from consolidation in these circumstances;

(b) AASB 127 requires an entity to use uniform accounting policies for reporting like transactions and other events in similar circumstances.

1 Note, however, that 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 is accounted for in accordance with that Standard.

In contrast, IPSAS 6 provides an exception to this requirement when it is "not practicable to use uniform accounting policies";

(c) AASB 127 requires a parent to present minority interests in the consolidated balance sheet within equity, separately from the parent shareholders' equity. In contrast, whilst IPSAS 6 precludes the presentation of minority interests within liabilities, it does not require presentation within equity; and

(d) AASB 127 prescribes the accounting treatment for investments in subsidiaries, jointly controlled entities and associates when a parent elects, or is required by local regulations, to present separate financial statements. It requires these investments to be accounted for at cost or in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*.[2] In contrast, IPSAS 6 only prescribes the accounting treatment for investments in subsidiaries in the separate financial statements of the parent.[3] Further, IPSAS 6 requires investments in subsidiaries to be accounted for in the parent's separate financial statements using the equity method or as an investment.[4]

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2 AASB 127 provides an alternative for accounting for these investments in the parent's separate financial statements. However, AASB 127 stipulates that when an entity accounts for investments in jointly controlled entities and associates in accordance with AASB 139 in its consolidated financial statements, it must also do so in its separate financial statements.

3 The accounting treatments within the parent's separate financial statements for investments in jointly controlled entities and associates are dealt with in IPSAS 8 *Financial Reporting of Interests in Joint Ventures* and IPSAS 7 *Accounting for Investments in Associates* respectively.

4 IPSAS 6 states that guidance on accounting for investments can be found in international and/or national accounting standards.

ACCOUNTING STANDARD AASB 127

The Australian Accounting Standards Board made Accounting Standard AASB 127 *Consolidated and Separate Financial Statements* under section 334 of the *Corporations Act 2001* on 15 July 2004.

This compiled version of AASB 127 applies to annual reporting periods beginning on or after 1 July 2007. It incorporates relevant amendments contained in other AASB Standards made by the AASB and other decisions of the AASB up to and including July 2007 (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 reports of each other reporting entity; and

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

Aus1.2 This Standard applies to annual reporting periods beginning on or after 1 January 2005.
[Note: For application dates of paragraphs changed or added by an amending Standard, see Compilation Details.]

Aus1.3 This Standard shall not be applied to annual reporting periods beginning before 1 January 2005.

Aus1.4 The requirements specified in this Standard apply to the financial report where information resulting from their application is material in accordance with AASB 1031 *Materiality*.

Aus1.5 When applicable, this Standard supersedes:

(a) AASB 1024 *Consolidated Accounts* as notified in the *Commonwealth of Australia Gazette* No S 133, 26 May 1992; and

(b) AAS 24 *Consolidated Financial Reports* as issued in May 1992.

Aus1.6 Both AASB 1024 and AAS 24 remain applicable until superseded by this Standard.

Aus1.7 Notice of this Standard was published in the *Commonwealth of Australia Gazette* No S 294, 22 July 2004.

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.**

The *cost method* is a method of accounting for an investment whereby the investment is recognised at cost. The investor recognises income from the investment only to the extent

that the investor receives distributions from retained earnings of the investee arising after the date of acquisition. Distributions received in excess of such earnings are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.

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

***Minority interest* is that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the 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 paragraphs 10 and Aus10.1 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, as modified by paragraph Aus10.1, 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 reports 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 paragraphs 10 and Aus10.1 not to present consolidated financial statements, and presents only separate financial statements, complies with paragraphs 37–42.

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.

Aus13.1 In the public sector, a parent/subsidiary relationship could be established in the manner outlined in the preceding paragraphs or, as is more frequently the case, the existence of control might be specified by legislative or executive authority or by administrative arrangements where there is power to give policy directions. In determining whether the relationship between

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*.

similar organisations within the public sector constitutes a control relationship, the following factors would be among those which should be considered either singly or in combination: ministerial approval being required for operating budgets; the power of the Minister or a central authority to appoint and remove members of the board of management; or a ministerial power of direction. Where the relationship between a public hospital, for instance, and a central authority constitutes a control relationship, this Standard would require consolidated financial statements to be prepared for the group comprising the central authority and the controlled hospital.

Aus13.2 This Standard does not attempt to identify all groups in the public sector which should prepare general purpose financial reports. Instead, it seeks to describe the factors which should be considered in determining whether a group exists and whether that group constitutes a reporting entity. In addition, the Standard identifies the accounting techniques which should be employed when, in the preparation of general purpose financial reports, 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.

Aus13.3 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. For instance, whether or not a ministerial portfolio would be a reporting entity depends on whether the minister is able to deploy resources across all entities included in that portfolio and there exists users dependent on general purpose financial reports for information about the deployment and management of resources dedicated to that portfolio.

Aus13.4 Whether one entity has the power to govern the financial and operating policies of another entity will depend on the particular circumstances. While private schools, private hospitals, individual local governments and universities may be financially dependent, to a greater or lesser degree, on state or federal 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.

Aus13.5 In determining the existence of a group in the public sector 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 need to be considered. 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.

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.

16. [Deleted by the IASB]

17. [Deleted by the IASB]

18. [Deleted by the IASB]

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

20. 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 114 *Segment Reporting* help to explain the significance of different business activities within the group.

21. A parent loses control when it loses the power to govern the financial and operating policies of an investee so as to obtain benefit from its activities. The loss of control can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when a subsidiary becomes subject to the control of a government, court, administrator or regulator. It could also occur as a result of a contractual agreement.

Consolidation Procedures

22. 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) *minority interests* in the profit or loss of consolidated subsidiaries for the reporting period are identified; and

    (c) minority interests in the net assets of consolidated subsidiaries are identified separately from the parent shareholders' equity in them. Minority interests in the net assets consist of:

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

(ii) the minority's share of changes in equity since the date of the combination.

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

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

25. 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.

26. The financial statements of the parent and its subsidiaries used in the preparation of consolidated financial statements shall be prepared as of the same reporting date. When the reporting dates of the parent and a subsidiary are different, 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.

27. When, in accordance with paragraph 26, the financial statements of a subsidiary used in the preparation of consolidated financial statements are prepared as of a reporting date different from that of the parent, 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 reporting date of the subsidiary and that of the parent shall be no more than three months. The length of the reporting periods and any difference in the reporting dates shall be the same from period to period.

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

29. 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.

30. The income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date as defined in AASB 3. The income and expenses of a subsidiary are included in the consolidated financial statements until the date on which the parent ceases to control the subsidiary. The difference between the proceeds from the disposal of the subsidiary and its carrying amount as of the date of disposal, including the cumulative amount of any exchange differences that relate to the subsidiary recognised in equity in accordance with AASB 121 *The Effects of Changes in Foreign Exchange Rates*, is recognised in the consolidated income statement as the gain or loss on the disposal of the subsidiary.

31. An investment in an entity shall be accounted for in accordance with AASB 139 *Financial Instruments: Recognition and Measurement* from the date that it ceases to be a subsidiary, provided that it does not become an associate as defined in AASB 128 or a jointly controlled entity as described in AASB 131.

32. The carrying amount of the investment at the date that the entity ceases to be a subsidiary shall be regarded as the cost on initial measurement of a financial asset in accordance with AASB 139.

33. Minority interests shall be presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity. Minority interests in the profit or loss of the group shall also be separately disclosed.

34. The profit or loss is attributed to the parent shareholders and minority interests. Because both are equity, the amount attributed to minority interests is not income or expenses.

35. Losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the subsidiary's equity. The excess, and any further losses applicable to the minority, are allocated against the majority interest except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.

36. If a subsidiary has outstanding cumulative preference shares that are held by minority interests and classified as equity, the parent computes its share of profits or losses after adjusting for the dividends on such shares, whether or not dividends have been declared.

Accounting for Investments in Subsidiaries, Jointly Controlled Entities and Associates in Separate Financial Statements

37. **When separate financial statements are prepared, investments in subsidiaries, jointly controlled entities and associates that are not classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with AASB 5 shall be accounted for either:**

    (a) at cost, or

    (b) in accordance with AASB 139.

    The same accounting shall be applied for each category of investments. Investments in subsidiaries, jointly controlled entities and associates that are classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with AASB 5 shall be accounted for in accordance with that Standard.

38. This Standard does not mandate which entities produce separate financial statements available for public use. Paragraphs 37 and 39–42 apply when an entity prepares separate financial statements that comply with Australian equivalents to IFRSs. The entity also produces consolidated financial statements available for public use as required by paragraphs 9 and Aus9.1, unless the exemption provided in paragraphs 10 and Aus10.1 is applicable.

39. **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

40. **The following disclosures shall be made in the notes to the consolidated financial statements:**

    (a) [Deleted by the IASB]

    (b) [Deleted by the IASB]

    (c) 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;

(d) 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;

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

(f) 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.

41. When separate financial statements are prepared for a parent that, in accordance with paragraphs 10 and Aus10.1 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).

42. When a parent (other than a parent covered by paragraph 41), 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, AASB 128 and AASB 131 to which they relate.

Aus42.1 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 of IAS 27

43. [Deleted by the AASB]

Withdrawal of Other IASB Pronouncements

44. [Deleted by the AASB]

45. [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 23 of AASB 127 *Consolidated and Separate Financial Statements* 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. The intention of management does not affect the existence of power and the financial ability of an entity to exercise or convert 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 minority 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% and 20% 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% ownership interest and voting rights.

Although 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%, 30% and 30% 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% of the voting rights in Entity D and reduce Entity B and C's interests to 20% 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%, 35% and 40% 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% (and dilute Entity B's interest to 23% and Entity C's interest to 26%).

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% 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% and 45% 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% of the voting rights and Entity A's interest would reduce to 30%.

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.