

Separate Financial Statements



Australian Government

**Australian Accounting
Standards Board**

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AVAILABLE ON THE AASB WEBSITE

Basis for Conclusions on IAS 27

Australian Accounting Standard AASB 127 *Separate Financial Statements* is set out in paragraphs 1 – Aus20.2 and Appendix A. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. AASB 127 is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation of Standards*, which identifies the Australian Accounting Interpretations, and AASB 1057 *Application of Australian Accounting Standards*. 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.

Comparison with IAS 27

AASB 127 *Separate Financial Statements* incorporates IAS 27 *Separate Financial Statements* issued by the International Accounting Standards Board (IASB). Australian-specific paragraphs (which are not included in IAS 27) are identified with the prefix “Aus” or “RDR”. Paragraphs that apply only to not-for-profit entities begin by identifying their limited applicability.

Tier 1

For-profit entities complying with AASB 127 also comply with IAS 27.

Not-for-profit entities’ compliance with IAS 27 will depend on whether any “Aus” paragraphs that specifically apply to not-for-profit entities provide additional guidance or contain applicable requirements that are inconsistent with IAS 27.

Tier 2

Entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements (Tier 2) will not be in compliance with IFRSs.

AASB 1053 *Application of Tiers of Australian Accounting Standards* explains the two tiers of reporting requirements.

Accounting Standard AASB 127

The Australian Accounting Standards Board makes Accounting Standard AASB 127 *Separate Financial Statements* under section 334 of the *Corporations Act 2001*.

Dated 7 August 2015

Kris Peach
Chair – AASB

Accounting Standard AASB 127 *Separate Financial Statements*

Objective

- 1 The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

Scope

- 2 **This Standard shall be applied in accounting for investments in subsidiaries, joint ventures and associates when an entity elects, or is required by local regulations, to present separate financial statements.**
- 3 This Standard does not mandate which entities produce separate financial statements. It applies when an entity prepares separate financial statements that comply with Australian Accounting Standards.

Definitions

- 4 **The following terms are used in this Standard with the meanings specified:**
***Consolidated financial statements* are the financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.**
***Separate financial statements* are those presented by an entity in which the entity could elect, subject to the requirements in this Standard, to account for its investments in subsidiaries, joint ventures and associates either at cost, in accordance with AASB 9 *Financial Instruments*, or using the equity method as described in AASB 128 *Investments in Associates and Joint Ventures*.**
- 5 The following terms are defined in Appendix A of AASB 10 *Consolidated Financial Statements*, Appendix A of AASB 11 *Joint Arrangements* and paragraph 3 of AASB 128:
 - associate
 - control of an investee
 - equity method
 - group
 - investment entity
 - joint control
 - joint venture
 - joint venturer
 - parent
 - significant influence
 - subsidiary.
- 6 Separate financial statements are those presented in addition to consolidated financial statements or in addition to the financial statements of an investor that does not have investments in subsidiaries but has investments in associates or joint ventures in which the investments in associates or joint ventures are

required by AASB 128 to be accounted for using the equity method, other than in the circumstances set out in paragraphs 8–8A.

- 7 The financial statements of an entity that does not have a subsidiary, associate or joint venturer's interest in a joint venture are not separate financial statements.
- 8 An entity that is exempted in accordance with paragraphs 4(a), Aus4.1 and Aus4.2 of AASB 10 from consolidation or paragraphs 17, Aus17.1 and Aus17.2 of AASB 128 from applying the equity method may present separate financial statements as its only financial statements.
- 8A An investment entity that is required, throughout the current period and all comparative periods presented, to apply the exception to consolidation for all of its subsidiaries in accordance with paragraph 31 of AASB 10 presents separate financial statements as its only financial statements.

Preparation of separate financial statements

9 Separate financial statements shall be prepared in accordance with all applicable Standards, except as provided in paragraph 10.

10 When an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either:

- (a) **at cost;**
- (b) **in accordance with AASB 9; or**
- (c) **using the equity method as described in AASB 128.**

The entity shall apply the same accounting for each category of investments. Investments accounted for at cost or using the equity method 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 for distribution (or included in a disposal group that is classified as held for sale or for distribution). The measurement of investments accounted for in accordance with AASB 9 is not changed in such circumstances.

11 If an entity elects, in accordance with paragraph 18 of AASB 128, to measure its investments in associates or joint ventures at fair value through profit or loss in accordance with AASB 9, it shall also account for those investments in the same way in its separate financial statements.

11A If a parent is required, in accordance with paragraph 31 of AASB 10, to measure its investment in a subsidiary at fair value through profit or loss in accordance with AASB 9, it shall also account for its investment in a subsidiary in the same way in its separate financial statements.

11B When a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred, as follows:

- (a) when an entity ceases to be an investment entity, the entity shall account for an investment in a subsidiary in accordance with paragraph 10. The date of the change of status shall be the deemed acquisition date. The fair value of the subsidiary at the deemed acquisition date shall represent the transferred deemed consideration when accounting for the investment in accordance with paragraph 10.
 - (i) [deleted]
 - (ii) [deleted]
- (b) when an entity becomes an investment entity, it shall account for an investment in a subsidiary at fair value through profit or loss in accordance with AASB 9. The difference between the previous carrying amount of the subsidiary and its fair value at the date of the change of status of the investor shall be recognised as a gain or loss in profit or loss. The cumulative amount of any gain or loss previously recognised in other comprehensive income in respect of those subsidiaries shall be treated as if the investment entity had disposed of those subsidiaries at the date of change in status.

12 Dividends from a subsidiary, a joint venture or an associate are recognised in the separate financial statements of an entity when the entity's right to receive the dividend is established. The dividend is recognised in profit or loss unless the entity elects to use the equity method, in which case the dividend is recognised as a reduction from the carrying amount of the investment.

13 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 10(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.

- 14 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 13. The requirements in paragraph 13 apply equally to such reorganisations. In such cases, references to 'original parent' and 'original group' are to the 'original entity'.

Disclosure

- 15 **An entity shall apply all applicable Standards when providing disclosures in its separate financial statements, including the requirements in paragraphs 16–17.**

- 16 **When a parent, in accordance with paragraphs 4(a), Aus4.1 and Aus4.2 of AASB 10, elects not to prepare consolidated financial statements and instead prepares separate financial statements, it shall disclose in those separate financial statements:**

- (a) **the fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name and principal place of business (and country of incorporation, if different) 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, joint ventures and associates, including:**
 - (i) **the name of those investees.**
 - (ii) **the principal place of business (and country of incorporation, if different) of those investees.**
 - (iii) **its proportion of the ownership interest (and its proportion of the voting rights, if different) held in those investees.**
- (c) **a description of the method used to account for the investments listed under (b).**

- Aus16.1 **When a not-for-profit parent, in accordance with paragraphs 4(a), Aus4.1 and Aus4.2 of AASB 10, elects not to prepare consolidated financial statements and instead prepares separate financial statements, it shall disclose in those separate financial statements the disclosures specified in paragraph 16, with the exception that the reference in paragraph 16(a) to 'International Financial Reporting Standards' is replaced by a reference to 'Australian Accounting Standards'.**

- 16A **When an investment entity that is a parent (other than a parent covered by paragraphs 16–Aus16.1) prepares, in accordance with paragraph 8A, separate financial statements as its only financial statements, it shall disclose that fact. The investment entity shall also present the disclosures relating to investment entities required by AASB 12 *Disclosure of Interests in Other Entities*.**

- 17 **When a parent (other than a parent covered by paragraphs 16–Aus16.1 or paragraph 16A) or an investor with joint control of, or significant influence over, an investee prepares separate financial statements, the parent or investor shall identify the financial statements prepared in accordance with AASB 10, AASB 11 or AASB 128 to which they relate. The parent or investor shall also disclose in its separate financial statements:**

- (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, joint ventures and associates, including:**
 - (i) **the name of those investees.**

- (ii) **the principal place of business (and country of incorporation, if different) of those investees.**
- (iii) **its proportion of the ownership interest (and its proportion of the voting rights, if different) held in those investees.**
- (c) **a description of the method used to account for the investments listed under (b).**

Effective date and transition

- 18 An entity shall apply this Standard for annual periods beginning on or after 1 January 2016. Earlier application is permitted for periods beginning after 1 January 2014 but before 1 January 2016. If an entity applies this Standard earlier, it shall disclose that fact and apply AASB 10, AASB 11, AASB 12 and AASB 128 at the same time.
- 18A AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities*, issued in August 2013, amended the previous version of this Standard as follows: amended paragraphs 5, 6, 17 and 18, and added paragraphs 8A, 11A–11B, 16A and 18B–18I. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Early adoption is permitted. If an entity applies those amendments earlier, it shall disclose that fact and apply all amendments included in *Investment Entities* at the same time.
- 18B If, at the date of initial application of AASB 2013-5 (which, for the purposes of this Standard, is the beginning of the annual reporting period for which those amendments are applied for the first time), a parent concludes that it is an investment entity, it shall apply paragraphs 18C–18I to its investment in a subsidiary.
- 18C At the date of initial application, an investment entity that previously measured its investment in a subsidiary at cost shall instead measure that investment at fair value through profit or loss as if the requirements of this Standard had always been effective. The investment entity shall adjust retrospectively the annual period immediately preceding the date of initial application and shall adjust retained earnings at the beginning of the immediately preceding period for any difference between:
- (a) the previous carrying amount of the investment; and
 - (b) the fair value of the investor’s investment in the subsidiary.
- 18D At the date of initial application, an investment entity that previously measured its investment in a subsidiary at fair value through other comprehensive income shall continue to measure that investment at fair value. The cumulative amount of any fair value adjustment previously recognised in other comprehensive income shall be transferred to retained earnings at the beginning of the annual period immediately preceding the date of initial application.
- 18E At the date of initial application, an investment entity shall not make adjustments to the previous accounting for an interest in a subsidiary that it had previously elected to measure at fair value through profit or loss in accordance with AASB 9, as permitted in paragraph 10.
- 18F Before the date that AASB 13 *Fair Value Measurement* is adopted, an investment entity shall use the fair value amounts previously reported to investors or to management, if those amounts represent the amount for which the investment could have been exchanged between knowledgeable, willing parties in an arm’s length transaction at the date of the valuation.
- 18G If measuring the investment in the subsidiary in accordance with paragraphs 18C–18F is impracticable (as defined in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*), an investment entity shall apply the requirements of this Standard at the beginning of the earliest period for which application of paragraphs 18C–18F is practicable, which may be the current period. The investor shall adjust retrospectively the annual period immediately preceding the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. When the date that it is practicable for the investment entity to measure the fair value of the subsidiary is earlier than the beginning of the immediately preceding period, the investor shall adjust equity at the beginning of the immediately preceding period for any difference between:
- (a) the previous carrying amount of the investment; and
 - (b) the fair value of the investor’s investment in the subsidiary.
- If the earliest period for which application of this paragraph is practicable is the current period, the adjustment to equity shall be recognised at the beginning of the current period.

- 18H If an investment entity has disposed of, or lost control of, an investment in a subsidiary before the date of initial application of AASB 2013-5, the investment entity is not required to make adjustments to the previous accounting for that investment.
- 18I Notwithstanding the references to the annual period immediately preceding the date of initial application (the ‘immediately preceding period’) in paragraphs 18C–18G, an entity may also present adjusted comparative information for any earlier periods presented, but is not required to do so. If an entity does present adjusted comparative information for any earlier periods, all references to the ‘immediately preceding period’ in paragraphs 18C–18G shall be read as the ‘earliest adjusted comparative period presented’. If an entity presents unadjusted comparative information for any earlier periods, it shall clearly identify the information that has not been adjusted, state that it has been prepared on a different basis, and explain that basis.
- 18J AASB 2014-9 *Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements*, issued in December 2014, amended the previous version of this Standard as follows: amended paragraphs 4–7, 10, 11B and 12. An entity shall apply those amendments for annual periods beginning on or after 1 January 2016 retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

References to AASB 9

- 19 If an entity applies this Standard but does not yet apply AASB 9, any reference to AASB 9 shall be read as a reference to AASB 139 *Financial Instruments: Recognition and Measurement*.

Withdrawal of IAS 27 (2008)

- 20 [Deleted by the AASB]

Commencement of the legislative instrument

- Aus20.1 For legal purposes, this legislative instrument commences on 31 December 2015.

Withdrawal of AASB pronouncements

- Aus20.2 This Standard repeals AASB 127 *Separate Financial Statements* issued in August 2011. Despite the repeal, after the time this Standard starts to apply under section 334 of the Corporations Act (either generally or in relation to an individual entity), the repealed Standard continues to apply in relation to any period ending before that time as if the repeal had not occurred.

[Note: When this Standard applies under section 334 of the Corporations Act (either generally or in relation to an individual entity), it supersedes the application of the repealed Standard.]

Appendix A Australian reduced disclosure requirements

This appendix is an integral part of AASB 127.

- AusA1** **The following do not apply to entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements:**
- (a)** **paragraphs 16, Aus16.1, 17(b) and 17(c);**
 - (b)** **in paragraph 17, the text “paragraphs 16–Aus16.1 or”; and**
 - (c)** **in paragraph 17(a), the text “and the reasons why those statements are prepared if not required by law”.**
- Entities applying Australian Accounting Standards – Reduced Disclosure Requirements may elect to comply with some or all of these excluded requirements.**
- AusA2** **The requirements that do not apply to entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements are also identified in this Standard by shading of the relevant text.**
- AusA3** **The RDR paragraph in this Standard applies only to entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements.**
- RDR17.1** **A parent or an investor with joint control of, or significant influence over, an investee, that prepares separate financial statements applying Australian Accounting Standards – Reduced Disclosure Requirements, shall disclose the methods used to account for the investment when the investment is significant.**

Deleted IAS 27 text

Deleted IAS 27 text is not part of AASB 127.

20 This Standard is issued concurrently with IFRS 10. Together, the two IFRSs supersede IAS 27 *Consolidated and Separate Financial Statements* (as amended in 2008).