# Explanatory Statement

## Accounting Standard AASB 127
## *Consolidated and Separate Financial Statements*

**March 2008**


**Australian Government**

**Australian Accounting Standards Board**

# EXPLANATORY STATEMENT

## Reasons for Issuing AASB 127

The IASB revised IAS 27 *Consolidated and Separate Financial Statements* in 2003 as part of its project on Improvements to International Accounting Standards. The IASB's main objective was to reduce alternatives in accounting for subsidiaries in consolidated financial statements and in accounting for investments in the separate financial statements of a parent, venturer or investor. The IASB did not reconsider the fundamental approach to consolidation of subsidiaries contained in IAS 27. The AASB incorporated this version of IAS 27 into AASB 127 *Consolidated and Separate Financial Statements* issued in July 2004.

In 2008, the IASB amended the 2003 version of IAS 27 as part of the second phase of the IASB's Business Combinations project. The amendments related, primarily, to accounting for non-controlling interests and the loss of control of a subsidiary. The IASB concluded the second phase of the project by issuing the amended IAS 27 in January 2008, along with a revised IFRS 3 *Business Combinations*.

The AASB issued this amended AASB 127 at the same time as a revised AASB 3 *Business Combinations*, incorporating the amended IAS 27 and revised IFRS 3 respectively. The AASB also issued AASB 2008-3 *Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127*, which makes consequential amendments to other Australian Accounting Standards that have arisen as a result of the IASB's Business Combinations project. These Standards enable Australian reporting entities, where appropriate, to continue to be compliant with IFRSs in relation to the presentation of financial statements.

## Main Features of AASB 127

### Objective

The objective of AASB 127 is to enhance the relevance, reliability and comparability of the information that a parent entity provides in its separate financial statements and in its consolidated financial statements for a group of entities under its control. The Standard specifies:

(a) the circumstances in which an entity must consolidate the financial statements of another entity (being a subsidiary);

(b) the accounting for changes in the level of ownership interest in a subsidiary;

(c) the accounting for the loss of control of a subsidiary; and

(d) the information that an entity must disclose to enable users of the financial statements to evaluate the nature of the relationship between the entity and its subsidiaries.

## Presentation of consolidated financial statements

A parent must consolidate its investments in subsidiaries. There is a limited exception available to some entities. However, that exception does not relieve venture capital organisations, mutual funds, unit trusts and similar entities from consolidating their subsidiaries.

Paragraphs Aus17.1-Aus17.10 have been inserted consistent with AASB 2007-9 *Amendments to Australian Accounting Standards arising from the Review of AASs 27, 29 and 31*. These paragraphs outline factors indicating control in the public sector, and apply only to public sector entities.

## Consolidation procedures

A group must use uniform accounting policies for reporting like transactions and other events in similar circumstances. The consequences of transactions, and balances, between entities within the group must be eliminated.

## Non-controlling interests

Non-controlling interests must be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be 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.

## Changes in the ownership interests

Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity.

When an entity loses control of a subsidiary it derecognises the assets and liabilities and related equity components of the former subsidiary. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost.

### Separate financial statements

When an entity elects, or is required by regulations, to present separate financial statements, investments in subsidiaries, jointly controlled entities and associates must be accounted for at cost or in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*.

### Disclosure

An entity must disclose information about the nature of the relationship between the parent entity and its subsidiaries.

## Application Date

This Standard is applicable to annual reporting periods beginning on or after 1 July 2005. Early adoption is not permitted.

Amendments to this Standard may have different application dates. For example, paragraphs Aus17.1-Aus17.10 arising from AASB 2007-9 apply to annual reporting periods beginning on or after 1 July 2008, with early adoption permitted for annual reporting periods beginning on or after 1 January 2005, but before 1 July 2008, provided there is early adoption for the same annual reporting period of the entire suite of related pronouncements issued at about the same time.

Transitional requirements in respect of the March 2008 amendments made in this Standard are described later in this Preface.

## Consequential Amendments

Consequential amendments to other Australian Accounting Standards are included in AASB 2008-3.

## Transition

An entity applies 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 cannot 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 must disclose that fact. An entity must 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 does 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; and

(c) the requirements in paragraphs 34-37 for the loss of control of a subsidiary. An entity must 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 must not recalculate any gain or loss on the loss of control of a subsidiary that occurred before the amendments are applied.

## Consultation Prior to Issuing this Standard

The AASB issued Exposure Draft ED 141 *Proposed Amendments to AASB 127* Consolidated and Separate Financial Statements, in July 2005. The AASB's ED 141 reproduced the IASB proposals without amendment and sought constituents' views on the IASB's proposed amendments.

Four submissions were received in respect of the proposals in the ED in which there was general support for adopting an Australian equivalent to the proposed amendments in respect of the treatment of changes in a parent's ownership interest in a subsidiary and loss of control of a subsidiary.

A Regulation Impact Statement has not been prepared in connection with the issue of this Standard as the amendments made do not have a substantial direct or indirect impact on business or competition, are of a minor or machinery nature or clarify existing requirements.