PBE IPSAS 6 (NFP): CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (NOT-FOR-PROFIT)

Version 1: 2014

Effective Periods Beginning
1 April 2015

A **controlled entity** is:
- An entity, including an unincorporated entity such as a partnership that is controlled by another entity (known as the controlling entity).

Control is:
The power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.
- Substances over Form approach.

Separate financial statements
- Those presented by a controlling entity, 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 net assets/equity interest, rather than on the basis of the reported results and net assets of the investees.

Consolidated financial statements
- The financial statements of an economic entity presented as those of a single entity.

CONSOLIDATION - Consolidated financial statements include all controlled entities of the controlling entity

CONTROL INDICATORS

Refer to paragraph 39.1 and Appendix A.

MIXED GROUPS

- A reporting entity, including a group reporting entity, is required to determine whether it is a for-profit entity or a public benefit entity (PBE).
- Consolidated financial statements must be prepared "using uniform accounting policies for like transactions and other events in similar circumstances".
- Therefore, during the consolidation process, the amounts reported in the financial statements of a member of a group might need to be adjusted where that member uses accounting policies that differ from the accounting policies applied in the consolidated financial statements.
- In preparing the consolidated financial statements, consideration needs to be given to the extent to which the amounts reported in the financial statements of the for-profit entity need to be adjusted on consolidation.
- Similar considerations must also be given to other situations in which a PBE group includes an entity that has prepared its financial statements on a basis that differs from PBE Standards, such as where a PBE within a PBE group has applied Tier 3 or Tier 4 PBE Simple Format Reporting.
- Refer to Appendix B for further information.

TIER 2 RDR REPORTERS

RDR Reporters are granted certain disclosure exemptions within the standard.

CONSOLIDATION PROCEDURES

- Combines the financial statements of the controlling entity and its controlled entities line by line by adding together similar items of assets, liabilities, equity, income and expenses.
- Eliminate the carrying amount of the controlling entity's investment in each controlled entity and the controlling entity's portion of net assets/equity of each controlled entity and recognise goodwill as appropriate (see PBE IFRS 3 – *Business Combinations*).
- Identify Minority Interests (MI's) separately in the surplus or deficit and comprehensive revenue and expense of consolidated controlled entities for the reporting period.
- Identify MI's in the net asset/equitys of consolidated controlled entities separately from the controlled entity's net assets/equity.
  MI's interest in the net assets consist of:
  – The amount of those MI's at the date of the original combination calculated in accordance with PBE IFRS 3; and
  – The MI's share of changes in equity since the date of the combination.
- Eliminate balances, transactions, income and expenses between entities within the same economic entity in full.

LOSS OF CONTROL

- A controlling entity can lose control of a controlled entity through a sale or distribution, or through some other transaction or event in which it takes no part (e.g. bankruptcy).
- When control is lost, the controlling entity derecognises all assets and liabilities at their carrying amounts and derecognises MI's.
- Any retained interest in the former controlled entity is recognised at its fair value at the date control is lost and is subsequently accounted for under the applicable PBE Standard.
- If the loss of control of the former controlled entity involves the distribution of equity interests to owners of the controlling entity acting in their capacity as owners, that distribution is recognised at the date control is lost.

Acquisitions and disposals that do not result in a change of control:
- These are accounted for as **equity** transactions, i.e. no profit/loss or goodwill can be recognised.

SEPARATE FINANCIAL STATEMENTS

Investments in controlled entities, jointly controlled entities and associates shall be accounted for either:
- Using the equity method in PBE IPSAS 7 - *Investments in Associates*.
- At cost; or
- As a financial instrument in accordance with PBE IPSAS 29 - *Financial Instruments: Recognition and Measurement*.

The same accounting policy is used for each category of investments.

ISSUES TO NOTE

- Potential voting rights are taken into account to determine control, but consolidation based on present ownership interest.
- Financial statements of the controlling entity and its controlled entities used in the preparation of the consolidated financial statements shall be prepared as of the same reporting date.
- Reporting dates of controlled entities and the controlling entity shall be no more than three months apart (except when fixed by statute and no reliable interim information is available).
- Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.
- MI's are presented in the consolidated Statement of Financial Position within net assets/equity, separately from the net assets/equity of the owners and controlling entity.

EXEMPTION FROM PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

- The controlling entity itself is a wholly owned controlled entity and the users of such financial statements are unlikely to exist; or the controlling entity is a partially owned controlled entity of another entity and all owners have been informed of and do not object to the decision.
- The controlling entity's debt or equity instruments are not publicly traded;
- The controlling entity did not file its financial statements with a securities commission or other regulator for the purposes of issuing its shares to the public; AND
- The ultimate or intermediate controlling entity of the controlling entity produces consolidated financial statements that comply with PBE Standards.*

* RDR Reporters do not have to meet the requirements of this last bullet point but must meet all other criteria above in order to qualify for the exemption.