



PASSFR.EU

A Digital Learning Platform for Generation Z:
Passport to IFRS®



Co-funded by the
Erasmus+ Programme
of the European Union

A Digital Learning Platform for Generation Z: Passport to IFRS®

IFRS® Standard 12 Disclosure of Interest in Other Entities



Funded by the Erasmus+ Program of the European Union. However, European Commission and Turkish National Agency cannot be held responsible for any use which may be made of the information contained therein.

© Copyright 2021, Istanbul University

CASE STUDY – IFRS 12 DISCLOSURE OF INTEREST IN OTHER ENTITIES

Introduction

The objective of IFRS 12 is to require an entity to disclose information about the nature of and risks associated with, its interests in other entities; and the effects of those interests on its financial position, financial performance and cash flows that enables users of its financial statements to evaluate.

IFRS 12 requires disclosure of the significant judgements and assumptions that an entity has made in determining the nature of its interest in another entity or arrangement. It also contains extensive disclosure requirements for subsidiaries, joint arrangements (joint operations or joint ventures), associates and unconsolidated structured entities.

Aim of this case study is to enable the understanding and evaluation of non-financial information about interest in other entities.

The Case Information

The Milcotton Company, which manufactures and sells silk fabric, is a successful and growing company operating in London. Milcotton Company established Linehome Company, which produces and sells linen fabric in Berlin on July 8, 2022, with a capital of CU 300,000. At this date, Milcotton Company owns 100% of Linehome Company. Milcotton Company has decided to go public on August 14, 2022, holding 45% of Linehome Company's equity (and related voting rights) to expand its operations and fund its investments. The remaining 55% equity and voting rights are distributed to 100 shareholders and each individually holding less than 1% of the voting rights. Milcotton Company entered into a contractual agreement with Linehome Company to direct the production process of Linehome Company while Linehome Company retained 45% voting rights.

On the other hand, Softhome Company, which produces and sells velvet fabric, was established in Budapest on September 22, 2022, and Milcotton Company has 25% voting rights of Softhome Company. The reporting date of Softhome Company is November 30, and this date was determined when the company was founded. In Hungary, where Softhome Company operates, the reporting date cannot be changed because the government does not allow it. Appropriate adjustments have been made for the effects of significant transactions between Softhome Company's financial statements ended November 30, 2022, and Milcotton Company's financial statements ended December 31, 2022.

Discussion Question

1. Please consider the above case study within the scope of IFRS 12.

SOLUTION OF CASE STUDY – IFRS 12 DISCLOSURE OF INTEREST IN OTHER ENTITIES

IFRS 12 includes disclosure principles for both financial and non-financial information that enable users of its consolidated financial statements and/or financial statements to understand and evaluate all aspects of interests in other entities. These disclosures include disclosures of significant judgments made in determining that it has control over the investee and disclosures about non-controlling interests in the investee (for example, summary financial information about the investee). Although Milcotton Company does not hold a majority of the voting rights (45%), it is concluded that Milcotton Company controls Linehome Company given its ability to manage related activities in the production process based on contractual agreement. In other words, Milcotton Company has been determined to control Linehome Company even though it has less than half the voting rights over Linehome Company. Therefore, the Milcotton Company must consolidate the Linehome Company.

In addition, IFRS 12 requires an entity to disclose the end date of the reporting period of the joint venture or associate and the reason for using the different date or period if the financial statements of a joint venture or associate used to apply the equity method differ in the reporting date or period. Softhome Company is a subsidiary of Milcotton Company, and the equity method is applied, as Milcotton Company has 25% of the voting rights of Softhome Company. It was stated that the reporting date of Softhome Company is November 30, and the reporting date could not be changed because the Hungarian government did not give permission.