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IFRS® Standard 12 Disclosure of Interests in Other Entities



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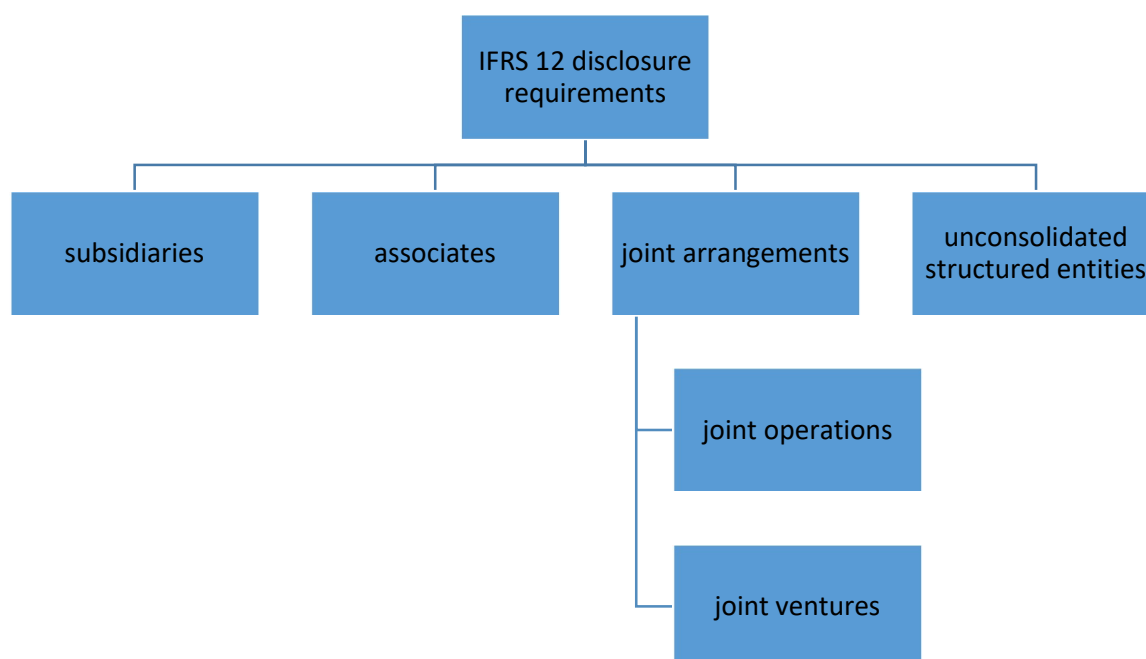
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IFRS® Standard 12 Disclosure of Interests in Other Entities

Scope

The disclosure requirements of group companies are provided in IFRS12. The objective of this disclosure is to provide information for financial statement users to evaluate the nature and associated risks of the interests in other entities, and also, the effects of those interests on their financial position, financial performance, and cash flows. IFRS 12 is not a technical standard, instead, it includes a wide range of disclosures about an entity's interests in subsidiaries, joint arrangements/operations, associates, and unconsolidated structured entities. Figure 1 presents the scope of IFRS 12.

Figure 1: Scope of IFRS 12



The disclosures required by IFRS 12 shall be performed by the entities that have an interest in subsidiaries, joint arrangements (joint operations or joint ventures), associates, unconsolidated structured entities, interests held for sale and discontinued operations, and also investment entities.

Interests in other entities refer to investments in which there is control over subsidiaries, significant influence on associates, and joint control in joint venture investments. The term “interest” here refers neither to the related parties nor typical customer-supplier relationships of companies.

Key Definitions (IFRS12.appendix A)

Interest in another entity	Refers to contractual and non-contractual involvement that exposes an entity to the variability of returns from the performance of the other entity. An interest in another entity can be evidenced by but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as provision of funding, liquidity support, credit enhancement, and guarantees. It includes how an
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	entity has control or joint control of, or significant influence over, another entity. An entity does not necessarily have an interest in another entity solely because of a typical customer-supplier relationship.
Structured entity	An entity that has been designed so that voting or similar rights are not the dominant factors in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed using contractual arrangements. Examples of structured entities include securitization vehicles, asset-backed financings, and certain investment funds.

Fundamental Issues

Disclosure of Significant judgments and assumptions

An entity discloses information about significant judgments and assumptions it has made (and changes in those judgments and assumptions) to determine whether the investee is a subsidiary, associate, or joint operation/venture. Table 1 presents the judgments regarding the type of investments.

Table 1: Judgements for investments

IFRS 10	IAS 28	IFRS 11	
SUBSIDIARY	ASSOCIATE	JOINT AGREEMENT	JOINT OPERATION/JOINT VENTURE
Control over another entity	Significant influence over another entity	Joint control over an arrangement	When a joint arrangement has been structured through a separate vehicle, its classification (i.e. joint operation or joint venture).
JUDGEMENTS	JUDGEMENTS	JUDGEMENTS	JUDGEMENTS
Determining that it does not control another entity even though it holds more than half of the voting rights of the other entity	Determining that it does not have significant influence even though it holds 20 per cent or more of the voting rights of another entity.	Determining that the parties are bound by a contractual arrangement	Determining that the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. (joint operation)
Determining that it controls another entity even though it holds less than half of the voting rights of the other entity.	Determining that it has significant influence even though it holds less than 20 percent of the voting rights of another entity.	Determining that the contractual arrangement gives two or more of those parties joint control of the arrangement	Determining that the parties that have joint control of the arrangement has rights to the net assets of the arrangement. (joint venture)
Determining that it is an agent or a principal		Determining that the facts and circumstances have been changed and the entity still has joint control of the arrangement.	

			Determining that the facts and circumstances have been changed and the type of joint arrangement in which it is involved has changed.
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IFRS 12 includes disclosure principles of both financial and non-financial information that enables users of its consolidated financial statements and or/ its financial statements to understand and evaluate all aspects of the interests in other entities.

Table 2 presents the content of the non-financial information that is required to be disclosed by the reporting entity about its subsidiaries, associates, and joint ventures/operations. Table 3 presents the content of the summarised financial information that is required to be disclosed by the reporting entity about its subsidiaries, associates, and joint ventures/operations.

Table 2 Disclosure of non-financial information

Type of investment	Non-Financial information disclosures by the reporting entity
Subsidiary	<ul style="list-style-type: none"> • composition of the group • the interest that non-controlling interests have in the group's activities and cash flows • evaluation of the nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group • evaluation of the nature of, and changes in, the risks associated with its interests in consolidated structured entities • evaluation of the consequences of changes in its ownership interest in a subsidiary that do not result in a loss of control • evaluation of the consequences of losing control of a subsidiary during the reporting period.
associate	<ul style="list-style-type: none"> • the nature, extent, and financial effects of its interests in joint arrangements and associates, including the nature and effects of its contractual relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates • the nature of, and changes in, the risks associated with its interests in joint ventures and associates.
joint venture	
Joint operation	

Table 3 Disclosure of summarised financial information *(The summarised financial information is the amounts before inter-company eliminations)*

Type of investment	Financial information disclosures by reporting entity
subsidiary	dividends paid to non-controlling interests summarised financial information about the assets, liabilities, profit or loss and cash flows of the subsidiary

joint venture/operation	dividends received from the joint venture/operation summarised financial information about the assets, liabilities, profit or loss and cash flows of the joint venture/operation
associate	dividends received from associate summarised financial information about the assets, liabilities, profit or loss and cash flows of the associate

If the reporting entity is an investment entity, it is required to disclose the following information about its unconsolidated subsidiaries: (IFRS12:19)

- the fact that the entity is an investment entity
- the subsidiary's name
- the principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary; and
- the proportion of ownership interest held by the investment entity and, if different, the proportion of voting rights held.
- information about significant judgments and assumptions it has made in determining that it is an investment entity, and specifically where the entity does not have one or more of the 'typical characteristics of an investment entity
- details of subsidiaries that have not been consolidated (name, place of business, ownership interests held)
- details of the relationship and certain transactions between the investment entity and the subsidiary (e.g. restrictions on the transfer of funds, commitments, support arrangements, contractual arrangements)
- information where an entity becomes, or ceases to be, an investment entity

Example-Disclosure of non-financial information

Selected disclosures from the 2021 annual financial statement disclosures of a parent entity and its subsidiaries & associates where the parent entity is a listed company and leads the pharmaceutical industry with its high standards and innovations.

Subsidiaries:

Subsidiaries are entities in which the parent entity has the power to control the financial and operating policies for the benefit of the parent entity. This power can arise from either the holding of more than 50% of the voting rights owned directly and indirectly by itself and/or by a certain parent entity. Family members and companies whereby the parent entity exercises control over the voting rights of (but does not have the economic benefit of) the shares held by them or through the exercise of actual dominant influence over financial and operating policies despite not having the power to exercise more than 50% of the voting rights. The proportion of ownership interest represents the effective shareholding of the Group through the shares held by the parent entity and indirectly by its Subsidiaries.

SUBSIDIARIES	Proportion of voting power held by the Company and its Subsidiaries (%)		Proportion of voting power held by the parent entity's Family members (%)		Total proportion of voting power held (%)		Total proportion of ownership interests (%)	
	2021	2020	2021	2020	2021	2020	2021	2020
Subsidiary 1	95.00	95.00	1.00	1.00	96.00	96.00	95.00	95.00
Subsidiary 2	99.00	99.00	0.05	0.05	99.05	99.05	99.00	99.00
Subsidiary 3	80.00	80.00	0.10	0.10	80.10	80.10	80.00	80.00

Associates:

The proportion of voting power held by the parent entity, its Subsidiaries and family members and the total proportion of ownership interests in Associates accounted for using the equity method on 31 December 2021 and 2020 are presented below:

ASSOCIATES	Proportion of voting power held by the Company and its Subsidiaries (%)		Proportion of voting power held by the parent entity Family members (%)		Total proportion of voting power held (%)		Total proportion of ownership interests (%)	
	2021	2020	2021	2020	2021	2020	2021	2020
Associate 1	45.00	45.00	0.10	0.10	45.10	45.10	45.10	45.00
Associate 2	25.30	25.30	1.70	1.70	27.00	27.00	25.30	25.300
Associate 3	25.00	25.00	0.90	0.90	25.90	25.90	25.00	25.00

Joint Ventures:

The proportion of voting power held in joint ventures by the parent entity, its subsidiaries and parent entity Family members and the total proportion of ownership interests on 31 December are presented below:

JOINT VENTURES	Proportion of voting power held by the Company and its Subsidiaries (%)		Proportion of voting power held by the Family members (%)		Total proportion of voting power held (%)		Total proportion of ownership interests (%)	
	2021	2020	2021	2020	2021	2020	2021	2020
Joint venture 1	50.00	50.00	-	-	50.00	50.00	50.00	50.00
Joint venture 2	50.00	50.00	-	-	50.00	50.00	50.00	50.00

Example-Disclosure of financial information

Excerpts from the statement of financial position, statement of profit or loss and other comprehensive income, statement of cash flows from the 2021 annual financial statement disclosures of a parent entity and its subsidiaries where the parent entity is a listed company and the only global producer operating in all three key areas of the global glass industry: flat glass, glassware and glass packaging.

As of December 31, 2021 Non-controlling interests (%) in subsidiaries are as follows:

Subsidiary Name	%
Subsidiary 1	30
Subsidiary 2	10
Subsidiary 3	5
Subsidiary 4	3

The statement of the financial position as of December 31, 2021 *(Amounts expressed in thousands of CU)*

	Subsidiary 1	Subsidiary 2	Subsidiary 3	Subsidiary 4	Total
Current Assets	400,000	75,000	155,000	5,000	635,000
Non-current Assets	600,000	60,000	100,000	1,000	761,000
Total Assets	1,000,000	135,000	255,000	6,000	1,396,000
Current Liabilities	50,000	40,000	5,000	3,000	98,000
Non-current Liabilities	15,000	400	25,000	-	40,400
Total Liabilities	65,000	40,400	30,000	3,000	138,400
Net assets of the company	935,000	94,600	225,000	3,000	1,257,600
Consolidation adjustments due to inter-group leases	-	100	-	-	100
Net assets after consolidation adjustments	935,000	94,700	225,000	3,000	1,257,700
Rate of Non-controlling interests	30%	10%	5 %	3 %	
Non-controlling interests	280,500	9,470	112,500	900	403,370
Dividend paid to non-controlling interests	45,000	400	5,000	20	50,420

Statement of profit or loss and OCI for the year (January 1- December 31, 2021) *(Amounts expressed in thousands of CU)*

	Subsidiary 1	Subsidiary 2	Subsidiary 3	Subsidiary 4	Total
Revenue	370,000	100,000	-	40,000	510,000
Profit/ (loss) for the year	(90,000)	5,000	30,000	300	(54,700)
Other comprehensive income	(20,000)	(100)	(2,000)	400	(21,700)
Total comprehensive income/ (loss)	(110,000)	5,100	28,000	700	(76,200)
Consolidation adjustments due to intergroup leases	-	100	-	-	100
Total comprehensive income/ (loss) after Consolidation adjustments	(110,000)	5,200	28,000	700	(76,100)
Rate of Non-controlling interests	30%	10%	5 %	3 %	
Non-controlling interests	(33,000)	520	1,400	21	(31,059)

Summary of cash flows for the period between January 1 – December 31, 2021 *(Amounts expressed in thousands of CU)*

	Subsidiary 1	Subsidiary 2	Subsidiary 3	Subsidiary 4	Total
Purchases of tangible, intangible assets and right of use of assets	3,200	2,900	-	-	6,100
<i>Borrowings from;</i>					
Cash inflows	-	-	-	-	-
Cash outflows	(70)	(25)	(1)	-	(96)
Dividends paid	(150,000)	-	(10,750)	-	(160,750)