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

IAS® Standard 27 Separate Financial Statements



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CASE STUDY - IAS 27 SEPARATE FINANCIAL STATEMENTS

Introduction

IAS 27 is applied in accounting for investments in subsidiaries, joint ventures, and associates when an entity prefers or is required by local regulations, to present separate (non-consolidated) financial statements.

When an entity prepares separate financial statements; investments in subsidiaries, associates, and jointly controlled entities are accounted for cost, fair value or using equity method.

The entity is required to apply the same accounting method for each category of investments. If an entity elects measurement of its associates and joint ventures at fair value; it shall apply the same method while presenting separate financial statements. If an entity elects to use the equity method for its associates and joint ventures; it shall apply the same method while presenting separate financial statements.

As for the subsidiaries, the parent company can choose to present its subsidiaries (as an investment) at cost, fair value, or by using the equity method in its separate financial statements. However, using the equity method while preparing separate financial statements and using consolidation procedures while preparing consolidated financial statements seems complicated. Presentation of investments in subsidiaries in a separate financial statement either at cost or fair value will be more practical.

The aim of this case study is to enable separate financial statements to be prepared.

The Case Information

Founded in Berlin in 1925, WhiteHouse Company operates in the field of durable consumer goods with its R&D, production, marketing and after-sales support services with its more than 10,000 employees.

On January 1, 2022, WhiteHouse Company acquired 25% share in Colourful-House Company, which established in the Istanbul by Colourful Global Inc., for CU 75,000 with the aim of producing and selling "Colourful" branded home appliances, including refrigerators, washing machines, and vacuum cleaners around the world, excluding the Chinese market, and rendering after-sales service for these products in line with the growth strategy of the emerging markets. Colourful-House Company's retained earnings amount to CU 50,000 on acquisition date.

WhiteHouse Company has significant influence over the Colourful-House Company. In addition, WhiteHouse Company has chosen to recognize for its investments in the Colorful-House Company at cost in its separate financial statements in accordance with IAS 27.

On December 31, 2022, the Colourful-House Company paid dividends in total amount of CU 15,000. Dividend payment is only reflected in the financial statements of Colourful-House Company, not reflected in the financial statements of WhiteHouse Company.

According to local regulations, WhiteHouse Company prepare separate financial statements in addition to the consolidated financial statements. The separate statement of financial position of WhiteHouse Company and Colourful-House Company as of December 31, 2022 are as follows:

The separate statement of financial position of WhiteHouse Company and Colourful-House Company (31.12.2022, CU)

	WhiteHouse Company, CU	Colourful-House Company, CU
<i>Current Assets</i>	290,000	90,000
Cash and cash equivalents	220,000	80,000
Trade receivables (Colourful-House Company)	30,000	-
Inventories	40,000	10,000
<i>Non-Current Assets</i>	210,000	130,000
Property, Plant and Equipment (PPE)	135,000	130,000
Investment (Colourful-House Company)	75,000	-
TOTAL ASSETS	500,000	220,000
<i>Current Liabilities</i>	-	30,000
Trade Payables (WhiteHouse Company)	-	30,000
<i>Equity</i>	500,000	190,000
Shares Capital	400,000	120,000
Retained Earnings	100,000	70,000
TOTAL LIABILITIES AND EQUITY	500,000	220,000

Discussion Questions

1. Show which journal entries WhiteHouse Company should make in its separate financial statements
2. Reflect the dividend payment on the WhiteHouse Company's financial statements.

SOLUTION OF CASE STUDY- IAS 27 SEPARATE FINANCIAL STATEMENTS

WhiteHouse Company acquired 25% share in Colourful-House Company for CU 75,000. WhiteHouse Company has significant influence over the Colourful-House Company. Therefore, it has been recognized for as an associate. WhiteHouse Company has chosen to recognize for its investments in the Colorful-House Company at cost in its separate financial statements in accordance with IAS 27.

Initial recognition of an associate

Dr. Investment in an associate	CU75,000	
Cr. Bank		CU75,000

On December 31, 2022, the Colourful-House Company paid dividends in total amount of CU 15,000. Dividend payment is only reflected in the financial statements of Colourful-House Company, not reflected in the financial statements of WhiteHouse Company. So, WhiteHouse Company's cash and cash equivalents and retained earnings accounts are increased CU 3,750 (15,000*25%).

	WhiteHouse Company	
	Dividend from Colourful-House Company, CU	Separate Statement of Financial Position, CU
Current Assets		293,750
Cash and cash equivalents	3,750	223,750
Trade receivables (Colourful-House Company)		30,000
Inventories		40,000
Non-Current Assets		210,000
Property, Plant and Equipment (PPE)		135,000
Investment (Colourful-House Company)		75,000
TOTAL ASSETS		503,750
Current Liabilities		-
Trade Payables (WhiteHouse Company)		-
Equity		503,750
Shares Capital		400,000
Retained Earnings	3,750	103,750
TOTAL LIABILITIES AND EQUITY		503,750

The dividends received will be recorded in the profit or loss.

Dr. Cash	CU3,750	
Cr. Profit or loss (retained earnings)		CU3,750