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IAS® Standard 27 Separate Financial Statements

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IAS® Standard 27 Separate Financial Statements

Scope and Key Definitions

Objectives of IAS 27

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.

There is not a mandatory requirement in IAS/IFRS for a parent company to prepare separate financial statements in addition to its consolidated financial statements. However, local regulations may require a parent company to prepare such separate financial statements in addition to its consolidated financial statements. Also, companies may prepare separate financial statements for their own internal control purposes.

The purpose of the standard is to make the requirements for separate financial statements in such cases clear. These requirements are simpler than the treatment of such accounts (investment in subsidiaries etc.) under consolidation accounting.

IAS 27 deals with presenting the company's own and single financial statement.

Consolidated financial statements are financial statements of a group in which the assets, liabilities, equity, income, expenses, and cash flows of the parent and its subsidiaries are presented as those of a single economic entity. Separate financial statements are presented by entities that have a subsidiary, associate, or joint venture's interest in a joint venture. Separate financial statements are presented by a parent company, an investor with joint control of, or significant influence over an investee, in which the investments are accounted for at cost, at fair value or according to equity method. (IAS 27:4)

However, the financial statements of an entity which does not have an investment (subsidiary, associate or joint venture) are not called "separate financial statements". Hence, separate financial statements are different from financial statements of a Company which does not have consolidation requirements. The term "separate" refers to the financial statements of entities which have investments and which are required to prepare their financial information separately.

In the case of group companies, the parent company presents consolidated financial statements including the consolidated amount of itself and its subsidiaries; and also presents separate (non-consolidated) financial statements. Figure 1 presents this relationship.

Figure 1 Scope of IAS 27

<table>
<tr><td colspan="3" align="center">SEPERATE FINANCIAL STATEMENT</td></tr>
<tr><td colspan="3" align="center">↑</td></tr>
<tr><td colspan="3" align="center">PARENT COMPANY</td></tr>
<tr><td align="center">Subsidiary 1</td><td align="center">Subsidiary 2</td><td align="center">Subsidiary 3</td></tr>
</table>

Fundamental Issues

Requirements for separate financial statements

Requirements for separate financial statements are only applied to investments in subsidiaries, associates, and joint ventures. Other requirements to be applied during the preparation of separate financial statements remain similar to financial statements of a company that are not prepare separate financial statements.

IAS 27 includes the accounting for three types of investments in separate financial statements:

TYPES OF INVESTMENTS		
SUBSIDIARY	**ASSOCIATE**	**JOINT VENTURE**
An entity that is controlled by another entity	An entity over which the investor has significant influence	A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement
The investor has **control** over the investee	The investor has **significant influence** over the investee	The investor has **joint control** over the investee

Preparation of separate financial statements

Choice of accounting method

When an entity prepares separate financial statements; investments in subsidiaries, associates, and jointly controlled entities are accounted for one of the following: (IAS27:10)

- at cost
- at fair value
- using the 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 seems more practical.

Dividends received

The parent company recognizes a dividend from a subsidiary, jointly controlled entity, or associate in profit or loss in its separate financial statements when it has the right to receive the dividend. The dividend is recorded in the profit or loss if the investment has been recognized at cost or at fair value instead of the equity method. If the equity method has been used for accounting of investment, then, the dividend has to be reduced from the carrying amount of the investment.

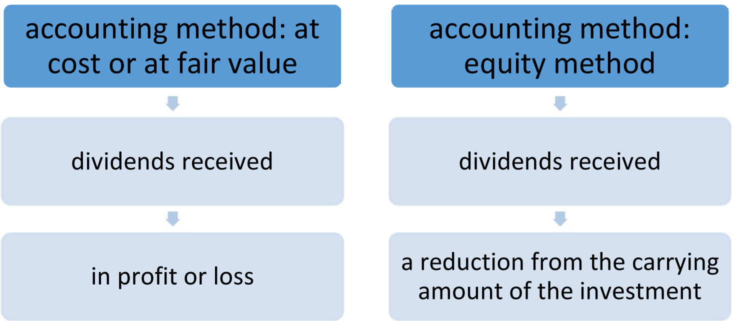

Figure 2: Accounting for dividends received

Example:

X company owns 40% shares of Y company which is a venture capital organization and has significant influence, hence classified as an associate.

Case A) X elects to measure the portion of the investment in Y at fair value through profit or loss

Case B) X elects to measure the portion of the investment in Y through equity method

Y Company reported a net profit of CU30,000 and paid cash dividends of CU10,000.

What will the records of X company be during the preparation of separate financial statements for dividends received based on Case A and Case B?

Solution:

Case A) X elects to measure the portion of the investment in Y at fair value through profit or loss. The dividends received will be recorded in the profit or loss.

Dr. Cash 4,000

Cr. Profit or loss (retained earnings) 4,000

Case B) X elects to measure the portion of the investment in Y through the equity method. The dividends received will be recorded as a reduction from the carrying amount of the investment

Dividends received:

Dr. Cash 4,000

Cr. Investment in Y 4,000

Dividends reported:

Dr.Investment in Y 12,000

Cr. Income from investment activities 12,000

Investments in subsidiaries, joint ventures, and associates classified as held for sale

When investments are classified as held for sale or for distribution to owners (or included in a disposal group that is classified as held for sale or for distribution to owners), they are measured at for:

- In accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, if previously accounted for at cost. IFRS 5 requires measurement at the lower of their carrying amount and fair value minus costs to sell
- In accordance with IFRS 9 Financial Instruments, if previously accounted for in accordance with IFRS 9.

Investment entities

As investment entities are exemptions from consolidation and are measured at fair value through profit or loss; it is required to also account for their investment in a subsidiary in the same way in its separate financial statements.

When a parent ceases to be an investment entity, the entity can account for an investment in a subsidiary at cost (based on fair value at the date of change or status) or at fair value through profit or loss. When an entity becomes an investment entity, it accounts for an investment in a subsidiary at fair value through profit or loss.(IAS 27:11A-B]

Group reorganisations

Specified accounting guidance is applied in separate financial statements in the case that the parent reorganises the structure of its group. On the date of this group reorganization; the new parent measures the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at cost. The guidance is applicable when a new entity meeting the following requirements is established: (IAS 27:13)

- the new parent obtains control of the original parent
- the assets and liabilities of the new group and the original group are the same immediately before and after the reorganisation, and
- the owners of the original parent before the reorganisation have the same absolute and relative interests in the net assets of the original group and the new group immediately before and after the reorganisation.

Disclosures

When a parent elects not to prepare consolidated financial statements (because of exemptions) and prepares separate financial statements instead, the following are disclosed in those separate financial statements of the parent:(IAS 27:16)

- the fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name and principal place of business (and country of incorporation if different) of the entity whose consolidated financial statements that comply with IFRS have been produced for public use; and the address where those consolidated financial statements can be obtained,

- a list of significant investments in subsidiaries, jointly controlled entities, and associates, including the name, principal place of business (and country of incorporation if different), proportion of ownership interest and, if different, proportion of voting rights, and
- a description of the method used to account for the foregoing investments.

EXAMPLE:

Company A acquired the two investments during the year:

- Investment 1: 70% of the ordinary shares that provides the majority voting rights of Company X for CU500,000.
- Investment 2: Company Y is a venture capital organization and Company A holds 25% of the ordinary shares that do not provide the majority voting rights for CU200,000. Instead, Company A has significant influence on Company Y and in its consolidated financial statements Company Y is accounting for its fair value (not with the equity method).

How will the accounting treatment for each investment be determined in the separate financial statements of Company A?

SOLUTION:

- Investment 1: Company X can be accounted for its cost (CU 500,000) or can be accounted for its fair value in accordance with IAS 39/IFRS9 or can be accounted by using the equity method in the consolidated financial statements of Company A.
- Investment 2: Company Y can only be accounted for its fair value in accordance with IAS 39/IFRS9 as it is a venture capital organization.