

TREASURY ANALYSIS – INTERNATIONAL ACCOUNTING STANDARDS

AASB 127 “Consolidated and Separate Financial Statements” replaces AAS 24 “Consolidated Financial Reports”

Major impacts of changes

- In the parent entity’s financial statements, an investment in subsidiaries, jointly controlled entities and associates must be recognised at cost or at fair value. Previously, AAS 24 did not address this, and AAS 19 and AAS 14 required the investments in joint ventures and associates be recognised at cost.

Key features of Standard

- AASB 127 substantially replicates the requirements of AAS 24, except for the areas discussed in “main differences” below.

Main differences compared to previous Australian requirements

Control

- AASB 127 is likely to produce the same control outcome as under the previous AAS 24, because AASB 127’s definition of control and indicators of control are very similar to the previous AAS 24.
- Control is defined as “the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities” (para 4). This definition is very similar to the previous AAS 24 definition – “the capacity...to dominate decision making...in pursuing the objectives of the controlling entity”.
- The indicators of control in AASB 127 para 13 are also very similar to the previous AAS24 para 22, as follows:
 - Ownership of more than half of the voting power of another entity;
 - Power to govern the financial and operating policies of the entity under a statute or an agreement;
 - Power over more than half the voting rights by virtue of an agreement with other investors;
 - Power to appoint or remove a majority of directors;
 - Power to cast the majority of votes at Board meetings.

Potential voting rights

- Where potential voting rights are currently exercisable (eg share call options), they should be considered in assessing control. In assessing whether potential voting rights contribute to control, all facts and circumstances (eg terms of exercise) must be considered “except the intention of management and the financial ability to exercise or convert” (para 14 and 15). Additional guidance is also provided, but it is not part of the standard¹.

Recognition required in a parent entity’s separate financial statements

- In a parent’s separate financial statements (ie non-consolidated columns), the investment in subsidiaries, jointly controlled entities and associates (that are not classified as held for sale per AASB5) must be recognised at cost or at fair value in accordance with AASB 139 (para 37). Previously:
 - AAS 24 did not explicitly address this issue.
 - AAS 19 and AAS 14 required investments in joint ventures and associates to be recognised at cost.

¹ However, this Guidance has subsequently been omitted by the AASB.

Minority interest

- A minority's share of accumulated losses cannot exceed the minority's share of equity except in rare circumstances where there is (1) a binding obligation on the minority to contribute its share of any shortfall and (2) the minority is financially able to make the payment (para 35). Therefore, any excess is adjusted against the parent's interest. In contrast, AAS 24 prohibited the excess being adjusted against the parent's interest, unless the parent had agreed to bear the responsibility.

Reporting date

- Consolidated financial statements should be based on financial statements of the parent and subsidiaries prepared at the same reporting date (para 26). In limited circumstances, consolidation may be based on different reporting dates up to three months apart (para 27) in which case the date at which the subsidiary's financial statements were prepared must be disclosed (para 40).

Australian Guidance¹

- Additional Australian guidance is provided on control, reciprocal ownership interests within the group, loss of control of a subsidiary and new issue of capital by a subsidiary. This guidance (which is not part of the standard) was copied from the previous AAS 24, with only minor changes.

Additional disclosure requirements

- Additional disclosures are required, including:
 - a list of significant subsidiaries (para 42);
 - the identity of the ultimate parent in Australia (para Aus 40.1).

Impact on the public sector

Control

- The concept of control in AASB 127 is unlikely to change the existing treatment in the public sector. Paras Aus 13.1 to 13.5 in AASB 127, which address the public sector, have been copied from the previous AAS 24 (paras 24 and 35-38). These paragraphs discuss control by legislative or executive authority and administrative arrangements and economic entities within the public sector.
- Further, additional factors indicating control in the public sector remain in AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments* (eg AAS31 paras 9.1.1 to 9.1.8 and especially para 9.1.3 which addresses accountability to Parliament and whether the Government has the residual financial interest in the net assets of another entity as additional factors indicating control).

Policy and Implementation issues

- *In a parent entity's separate financial statements*, the investment in subsidiaries, jointly controlled entities and associates must be recognised at cost or at fair value.

This summary has been written in general terms and is intended for reference only. Agencies are strongly recommended to review the contents of the Standard to determine its application in particular circumstances.