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CHARTERED ACCOUNTANTS OF SRI LANKA

LKAS 27 – Consolidated and Separate Financial Statements
LKAS 28 – Investments in Associates

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Group Financial Reporting

- LKAS 27 – Consolidated and Separate Financial Statements
- LKAS 28 – Investments in Associates

3

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A Presentation on Consolidated and Separate Financial Statements LKAS 27 - 25 June 2012

- Scope
  - Consolidated Financial Statements for a group of entities under the control of a parent
  - Separate Financial Statements (by election or legal requirement)
    - Investments in subsidiaries
    - Investments in associates
    - Investments in jointly controlled entities

4

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- Definitions
  - Consolidated financial statements
    - Financial Statements of a group presented as those of a single economic entity
  - Control
    - Power to govern financial and operating policies of an entity so as to obtain benefits from its activities
  - Group
    - Parent and all its subsidiaries

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- Definitions
  - Non-controlling interest
    - Equity inn a subsidiary not attributable, directly or indirectly, to a parent
  - Parent
    - An entity that has one or more subsidiaries
  - Subsidiary
    - An entity that is controlled by another entity (known as the parent) – includes unincorporated entities

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- Definitions
  - Separate Financial Statements
    - Presented by
      - A parent
      - An investor in an associate
      - A venturer in a Jointly Controlled Entity
    - Where investments are accounted on the basis of direct equity interest rather than on the basis of reported results and the net assets

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- Separate Financial Statements
  - Separate financials need not be appended to or accompany consolidated financial statements
  - A Parent exempted from preparation of consolidated financial statements may prepare only separate financial statements
  - Financial Statements where Equity method is applied for an associate are not separate financial statements
  - Financial statements of an entity that does not have a subsidiary, associate or jointly controlled entity are not separate financial statements

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- Presentation of consolidated financial statements
  - Every parent shall present consolidated financial statements
    - Exemptions
  - All subsidiaries of the parent shall be included
    - No exceptions other than in loss of control

9

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- A parent need not present consolidated financials only on satisfaction of four conditions
  - *The parent* is a wholly owned subsidiary of another entity or in the case of a partially owned subsidiary, the other shareholders (including non voting) don't object
  - *The parent*'s debt or equity instruments are not publicly traded
  - *The parent* is not in the process of publicly issuing any class of instruments
  - The ultimate or any intermediate parent of *the parent* makes publicly available, SLAS compliant consolidated financials

10

- Subsidiaries and Control
  - Control is presumed when >50% of the voting power is owned
    - Directly or Indirectly through subsidiaries
    - Unless such ownership is clearly demonstrated not to constitute control
  - Even when ≤50% of voting power is owned, control exists when
    - Power over more than half of the voting rights by virtue of an agreement with other investors
    - Power to govern financial and operating policies of the entity under a statute or an agreement Power to 'appoint' or 'remove' majority of the members of the board
    - Power to cast the majority of votes at meetings of the board

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- Subsidiaries and Control
  - In assessing existence of Control
    - The effect of potential voting rights currently exercisable or convertible shall be considered
    - Intention of management and financial ability is not considered
  - No exclusion on the following grounds
    - Simply because the investor is a venture capital org., mutual fund or unit trust
    - Dissimilar business activities – SLFRS 8 Operating Segments
  - Exclusion is only on loss of control

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- Consolidation Procedures
  - Line by line combination of elements of financial statements
    - Elimination of Parent's investment and parent's share of equity in respect of each subsidiary
    - Identification of non-controlling interest in
      - profit or loss of consolidated subsidiaries
      - Net assets
        - » As at the date of original combination (SLFRS 3)
        - » Share of changes in equity since such date
  - Parent and non-controlling interests are based on the present ownership interests (Potential voting rights are not considered)

13

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- Consolidation Procedures
  - Full elimination of Intra-group balances & transactions
    - Income and expenses and dividends
    - Profits/losses resulting from Intra-group transactions which are included in assets
    - If such losses represent impairment, it has to be recognised accordingly
  - Reporting dates shall be the same unless it is impractical in which event
    - The gap should not be more than three months
    - Adjustments shall be made for significant transactions/events
    - Lengths of reporting periods shall be equal and consistent
  - Uniform Accounting Policies
  - Income and expenses of the subsidiary based on the assets and liabilities recognised on the acquisition date

14

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- Consolidation Procedures
  - Non-controlling interest:
    - Profit/loss and each component of other comprehensive income are attributed to the parent and non-controlling interest
    - Total comprehensive income is attributed even if the non-controlling interest having a deficit
    - In the statement of financial position, presented within equity but separately from parent's equity
  - Changes in ownership interest that do not result in a loss of control are accounted as equity transactions

15

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- Loss of Control
  - Derecognise:
    - Assets (including goodwill) and liabilities at carrying amounts
    - Non-controlling interest
  - Recognise:
    - Any consideration received at fair value
    - Any distribution of shares
    - Any investment retained in the subsidiary at fair value
    - Gain or loss in profit/loss attributable to the parent

16

- Loss of Control
  - All amounts recognised in other comprehensive income in relation to the subsidiary shall be accounted as if the parent directly disposed of the related asset / liability
    - Reclassify to P/L
    - Transfer directly retained earnings

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- Separate Financial Statements
  - Investments in subsidiaries, jointly controlled entities and associates
    - Cost
    - In accordance with LKAS 39
  - Same accounting for each category of investments
  - Dividends are recognised in the P/L when right to receive is established
  - Treatment consistent with consolidated financial statements

- Reorganisation
  - New entity established as a parent
    - New parent obtains control of the original parent through an exchange of equity instruments
    - Assets and liabilities of the original group remain unchanged
    - Absolute and relative interests in the net assets for the owners remain unchanged
  - Cost for the new parent is measured at the carrying amount in the separate financial statements of the original parent/entity

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- Disclosures
  - Relationship when the voting power < 50%
  - Reasons why >50% voting power does not constitute control (where applicable)
  - Reporting date if different from the parent and reasons there for
  - Any significant restrictions to transfer funds
  - A schedule showing effects of changes in a parent's ownership interest not resulting in loss of control
  - Gain or loss on loss of control of a subsidiary including impact on any line item in the statement of comprehensive income

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- Disclosures
  - When separate financial statements are prepared after electing not to prepare consolidated financial statements
    - The fact that they are separate financials and exemption from consolidation has been used
    - Entity preparing SLAS compliant consolidated financials for public use and its address
    - List of significant subsidiaries, jointly controlled entities and associates (name, country of incorporation or residence, proportion of ownership interest/voting power)
    - Accounting method used to account for those investments
  - While presenting consolidated financial statements, if separate financial statements are also prepared when it is not required by law, the reason for so preparing separate financial statements

21

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Group Financial Reporting

LKAS 28

Investments in Associates

22

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- Scope
  - Scopes out investments in associates held by Venture Capital Organisations, Mutual funds, Unit Trusts and investment-linked insurance funds
    - Accounted at fair value upon initial recognition
    - Any changes in FV shall be recognised in profit / loss

23

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- Definitions
  - Associate
    - Entity over which the investor has significant influence, but not a subsidiary or a jointly controlled entity
  - Equity Method
    - Investment is initially recognised at cost
    - Thereafter adjusted for the post-acquisition share of net assets of the investee
    - P/L of the investor includes the investor's share of the P/L of the investee
  - Significant Influence
    - Power to participate in the financial and operating policy decisions of the investee but not control or joint control

24

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- Significant Influence
  - Significant Influence is presumed when >20% of the voting power is owned
    - Directly or Indirectly through subsidiaries
    - Unless such ownership is clearly demonstrated not to constitute control
    - Substantial or majority ownership by another investor does not necessarily preclude significant influence
  - Evidence for existence of significant influence
    - Representation on the board of directors
    - Participation in policy making including dividends / distributions
    - Material transactions
    - Interchange of managerial personnel
    - Provision of essential technical information

25

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- Recognition
  - Based on significant influence
  - In assessing existence of Significant Influence
    - The effect of potential voting rights currently exercisable or convertible shall be considered
    - Intention of management and financial ability is not considered
  - Accounting shall be by using Equity method except
    - Where the investment is classified as held for sale

26

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- Exemptions to applying Equity Method
  - A parent, having an associate, exempt from the requirement of preparing consolidated financial statements
  - If an investor satisfies all of the following:
    - The investor is a wholly owned subsidiary of another entity or in the case of a partially owned subsidiary, the other shareholders don't object)
    - The investor's debt or equity instruments are not publicly traded
    - The investor is not in the process of publicly issuing any class of instruments
    - The ultimate or any intermediate parent of the investor produces SLAS compliant consolidated financials, publicly available

27

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- Equity Method Procedures
  - Investor's share is based only on the present ownership interest of investor and subsidiaries
    - Holdings by other associates and JVs are ignored
    - Potential voting rights are not considered
  - If the associate has subsidiaries, associates or JVs equity method is applied based on Associate's financial statements inclusive of the profit / loss shares of them
  - Proportionate elimination of profits and losses arising from upstream and downstream transactions

28

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- Equity Method Procedures (Contd.)
  - Goodwill is included in the carrying amount of the investment; amortisation not permitted
  - Reporting date – same or within three months
  - Uniform Accounting Policies
  - Losses in excess of cost of investment are not recognised unless there is a specific obligation
  - Impairment testing is required

29

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- Disclosures
  - Fair Value where there are published price quotations
  - Summarised financial information of associates (assets, liabilities, revenues and P/L) as a total and for those not accounted in equity method
  - Reasons for non existence of significant influence with >20% voting power
  - Reasons for existence of significant influence with <20% voting power
  - Reasons for using financial statements of a period different from the investor
  - Any significant restrictions to transfer funds
  - Unrecognised share of losses where investor has discontinued recognition of its share of losses

30

- Disclosures (Contd.) – specific to Equity method
  - Investment classified as a non-current asset
  - Separate disclosure
    - Share of profit / loss
    - Carrying amount
    - Investor's share of any discontinued operations
  - Share of changes recognised in other comprehensive income by the associate – recognised by the investor in other comprehensive income
  - Appropriate share of contingent liabilities

Thank you.