CA BUSINESS SCHOOL
EXECUTIVE DIPLOMA IN BUSINESS AND ACCOUNTING

SEMESTER 1

LKAS 27
CONSOLIDATED AND SEPARATE FINACIAL STATEMENTS

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Scope

This standard shall be applied in the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent.

This standard shall also be applied in accounting for investments in subsidiaries, jointly controlled entities and associates when an entity elects, or is required by local regulations, to present separate financial statements.

Definitions

The following terms are used in this standard with the meanings specified:

Consolidated financial statements are the financial statements of a group presented as those of a single economic entity.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

A group is a parent and all its subsidiaries.

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to a parent.

A parent is an entity that has one or more subsidiaries.

Separate financial statements are those presented by a parent, an investor in an associate or a venture in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

A subsidiary is an entity, including an unincorporated entity such as a partnership that is controlled by another entity (knows as the parent)

Presentation of consolidated financial statements

A parent, shall present consolidated financial statements in which it consolidates its investments in subsidiaries in accordance with this Standard.

A parent need not present consolidated financial statements if and only if:

a) the parent is itself a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;
b) the parent's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
c) the parent did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and
d) the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with Sri Lanka Accounting Standards.

Scope of consolidated financial statements

Consolidated financial statements shall include all subsidiaries of the parent.

Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the parent owns half or less of the voting power of an entity when there is:

a) power over more than half of the voting rights by virtue of an agreement with other investors;
b) power to govern the financial and operating policies of the entity under a statute or an agreement;
c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or
d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

Consolidation procedures

In preparing consolidated financial statements, an entity combines the financial statements of the parent and its subsidiaries line by line by adding together like items of assets, liabilities, equity, income and expenses. In order that the consolidated financial statements present financial information about the group as that of a single economic entity, the following steps are then taken:

a) the carrying amount of the parent's portion of equity of each subsidiary are eliminated (see SLFRS 3, which describes the treatment of any resultant goodwill);

b) non-controlling interests in the profit or loss of consolidated subsidiaries for the reporting period are identified; and

c) non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the parent's ownership interests in them. Non controlling interests in the net assets consist of:

    i. the amount of those non-controlling interests at the date of the original combination calculated in accordance with SLFRS 3; and

    ii. the non-controlling interests' share of changes in equity since the date of the combination.

Intra group balances, transactions, income and expenses shall be eliminated in full.

The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same date. When the end of the reporting period of the parent is different from that of a subsidiary, the subsidiary prepares, for consolidation purposes, additional financial statements as of the same date as the financial statements of the parent unless it is impracticable to do so.

Consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Non-controlling interests shall be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent.

Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners).

Disclosure

The following disclosures shall be made in consolidated financial statements:

a) the nature of the relationship between the parent and a subsidiary when the parent does not own, directly or indirectly through subsidiaries, more than half of the voting power;
b) the reasons why the ownership, directly or indirectly through subsidiaries, of more than half of the voting or potential voting power of an investee does not constitute control;
c) the end of the reporting period of the financial statements of a subsidiary when such financial statements are used to prepare consolidated financial statements and are as of a date or for a period that is different from that of the parent’s financial statements, and the reason for using a different date or period;