

GENERAL ACCOUNTING

SECTION 1602

non-controlling interests

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PURPOSE AND SCOPE

.01 This Section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Three other Sections deal with closely related matters:

- (a) BUSINESS COMBINATIONS, Section 1582, sets out the basis of accounting for transactions by which subsidiaries are acquired, including the accounting for a non-controlling interest at the time of a business combination.
- (b) SUBSIDIARIES, Section 1591, deals with the circumstances in which consolidation is used in the general purpose financial statements of profit-oriented enterprises, and provides an accounting policy choice for an enterprise to either consolidate its subsidiaries or to account for them using the equity method or the cost method.
- (c) CONSOLIDATED FINANCIAL STATEMENTS, Section 1601, describes the preparation of consolidated financial statements.

DEFINITION

.02 The following term is used in this Section with the meaning specified:

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

PROCEDURES

.03 In preparing consolidated financial statements, an entity identifies:

- (a) non-controlling interests in the net income of consolidated subsidiaries for the reporting period; and
- (b) non-controlling interests in the net assets of consolidated subsidiaries 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 BUSINESS COMBINATIONS, Section 1582; and
 - (ii) the non-controlling interests' share of changes in equity since the date of the combination.

.04 When potential voting rights exist, the proportions of net income and changes in equity allocated to the parent and non-controlling interests are determined on the basis of present ownership interests and do not reflect the possible exercise or conversion of potential voting rights.

CHANGE IN OWNERSHIP INTEREST IN A CONSOLIDATED SUBSIDIARY

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

.06 In such circumstances, the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognized directly in equity and attributed to the owners of the parent.

LOSS OF CONTROL OF A CONSOLIDATED SUBSIDIARY

- .07 A parent can lose control of a consolidated subsidiary with or without a change in absolute or relative ownership levels. This could occur, for example, when a consolidated subsidiary becomes subject to the control of a government, court, administrator or regulator, or as a result of a contractual agreement.
- .08 A parent might lose control of a consolidated subsidiary in two or more arrangements (transactions). However, sometimes circumstances indicate that the multiple arrangements should be accounted for as a single transaction. In determining whether to account for the arrangements as a single transaction, a parent shall consider all of the terms and conditions of the arrangements and their economic effects. One or more of the following may indicate that the parent would account for the multiple arrangements as a single transaction:
- (a) They are entered into at the same time or in contemplation of each other.
 - (b) They form a single transaction designed to achieve an overall commercial effect.
 - (c) The occurrence of one arrangement is dependent on the occurrence of at least one other arrangement.
 - (d) One arrangement considered on its own is not economically justified, but it is economically justified when considered together with other arrangements. An example is when one disposal of shares is priced below market and is compensated for by a subsequent disposal priced above market.
- .09 *If a parent loses control of a consolidated subsidiary, it shall:*
- (a) *derecognize the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;*
 - (b) *derecognize the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of equity attributable to them);*
 - (c) *recognize:*
 - (i) *the fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control; and*
 - (ii) *if the transaction that resulted in the loss of control involves a distribution of shares of the subsidiary to owners in their capacity as owners, that distribution;*
 - (d) *recognize any investment retained in the former subsidiary at its carrying amount at the date when control is lost; and*
 - (e) *recognize any resulting difference as a gain or loss in net income attributable to the parent.*
- .10 *On the loss of control of a consolidated subsidiary, any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary shall be accounted for in accordance with other Sections from the date when control is lost.*
- .11 The carrying amount of a consolidated subsidiary is the carrying amount in the non-consolidated financial statements of the parent. This will be the cost of the subsidiary, unless the subsidiary's shares are quoted in an active market, in which case the carrying amount is the fair value. The carrying amount of the retained investment is a proportionate share of the carrying amount of the subsidiary at the date of loss of control.
- .12 The carrying amount of any investment retained in the former subsidiary at the date when control is lost shall be regarded as the carrying amount on initial recognition of a financial asset in accordance with FINANCIAL INSTRUMENTS, Section 3856, or, when appropriate, the cost on initial recognition of an investment in an entity subject to significant influence or an investment in a joint arrangement.

PRESENTATION

- .13 *If an entity consolidates its subsidiaries, 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.*
- .14 Net income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The amount attributed to the non-controlling interests is not a deduction in arriving at net income.
- .14A Exchange gains and losses arising from the translation of the financial statements of a self-sustaining foreign operation that are recognized in a separate component of shareholders' equity and attributable to the non-controlling interests are included in the non-controlling interests component of equity (see EQUITY, Section 3251).
- .15 If a consolidated subsidiary has outstanding cumulative preference shares that are classified as equity and are held by non-controlling interests, the parent computes its share of net income after adjusting for the dividends on such shares, whether or not dividends have been declared.

EFFECTIVE DATE AND TRANSITION

- .16 Except as specified in paragraphs 1602.17-.18, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.
- .17 Amendments to paragraph 1602.14 and new paragraph 1602.14A, issued in October 2013, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2014. Earlier application is permitted.
- .18 Amendments to paragraphs 1602.01(b) and 1602.12, issued in September 2014, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2016. Earlier application is permitted.

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