**Principles of consolidation**

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| * **What is a group?**   + If one co. (P) owns > 50% of the ordinary shares of another co ( S).   + If one co. (P) has ‘control’ over the another co. (S)   + If one co. (P) has enough voting power to appoint all the directors of the second co. (S)   + If one co. (P) able to manage another as if it were merely a department of first Co. (S) , rather than a separate entity   + Legally P and S remain distinct, but in economic substance they are one economic unit (group)     - P = Parent     - S = Subsidiary * **Purpose of consolidated accounts :**   + present FS about a parent & its subsidiary as one unit   + show the economic resources controlled by the group   + show the obligations of the group, and show the results the group achieves with its resources * **Entity concept**   + CF S are the most common form of group accounts.   + Prepared by replacing the cost of investments with the individual assets and liabilities underlying that investment   + If the subsidiary is only partly owned all the A & L of the subsidiary are consolidated line by line , but the non-controlling interest (NCI )in those net assets is presented in CFS   + The **single economic unit concept** focuses on the existence of the group as an economic unit. It concentrates on the resources controlled by the entity.   + Under single entity it is assumed that all the transactions have been carried out by a single company * **Relevant IFRS to the preparation of C F S:**   + IFRS 3 Business Combinations (revised January 2008)   + IFRS 10 Consolidated Financial Statements ( issued May 11)   + IAS 28 Investments in Associates & JVs(revised in May 11). | * **Definitions**   + **Parent** : An entity that controls one ore more entities   + **Subsidiary** – an entity that is controlled by another entity (known as the parent)   + **Control** –     - power over the investee,(ability to direct the relevant activities )     - exposure, or rights, to variable returns from its involvement with the investee     - the ability to use its power over the investee to affect the amount of the investor's returns * **Requirements for C F S**    + Consolidation should be prepared when parent has control over subsidiary.   + IFRS 10 adopts principle based approach to determining whether or not control is exercised it is a matter of judgment.   + Periodically P should check whether control over investee is gained or lost. * **Exemption** from consolidation   + Parent is a wholly owned or party owned subsidiary of other   + Parent’s debt or equity not traded in stock market   + Parent not filing F/S with SEC or other regulatory authority   + Ultimate parent co. produces CFS * **Exclusion** from consolidation:   + Subsidiary held for resale and   + Immaterial items need not be consolidated * **Disclosures when exemption is provided**    + The fact that CFS not presented   + A list of significant investments including % of holding and principle place of business and country of incorporation   + Bases on which the investments have been accounted in the individual financial statements. * **These are Not the reasons for exclusions**   + poor performance of the subsidiary   + poor financial position of the subsidiary   + Differing activities of the subsidiary from the rest of the group.   + Non-coterminous year ends -- in such case maximum gap cannot be more than three months |  |