



ANANT BHATT LLP

CERTIFIED PUBLIC ACCOUNTANTS

THE POWER OF EXPERIENCE®

AUDIT

TAX

ADVISORY

City House, First Floor

Nyerere Avenue

Mombasa, Kenya

P.O. Box 80766-80100

Phone: 041-2223682/6542

Email: info@anantbhatt.com

Visit: www.anantbhattllp.com



THE ANANTROY BHATT KNOWLEDGE CENTRE



IFRS 10:

**CONSOLIDATED FINANCIAL
STATEMENTS**

1. Introduction
2. Accounting requirements and exemptions
3. Consolidation procedures
4. Changes in group structure
5. Investment entity

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Introduction to IFRS 10: Consolidated Financial Statements

Definitions

- **Consolidated financial statements:** The financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.
- **Control of an investee:** An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.
- **Parent:** An entity that controls one or more entities.

- **Power:** Existing rights that give the current ability to direct the relevant activities.
- **Protective rights:** Rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate.
- **Relevant activities:** Activities of the investee that significantly affect the investee's returns.

Control

Determining Control = An investor determines whether it is a parent by assessing whether it controls one or more investees. An investor considers all relevant facts and circumstances when assessing whether it controls an investee. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Elements of control = An investor controls an investee if and only if the investor has all of the following elements

- power over the investee, i.e. the investor has existing rights that give it the ability to direct the relevant activities (the activities that significantly affect the investee's returns);
- 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.

Power arises from rights = Such rights can be straightforward (e.g. through voting rights) or be complex (e.g. embedded in contractual arrangements). An investor that holds only protective rights cannot have power over an investee and so cannot control an investee.

Exposure to variable returns = An investor must be exposed, or have rights, to variable returns from its involvement with an investee to control the investee. Such returns must have the potential to vary as a result of the investee's performance and can be positive, negative, or both.

Ability to use power = A parent must not only have power over an investee and exposure or rights to variable returns from its involvement with the investee, a parent must also have the ability to use its power over the investee to affect its returns from its involvement with the investee.

Determining status as principal or agent = When assessing whether an investor controls an investee an investor with decision-making rights determines whether it acts as principal or as an agent of other parties. A number of factors are considered in making this assessment. For instance, the remuneration of the decision-maker is considered in determining whether it is an agent.

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Accounting Requirements and Exemptions

A parent prepares consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.

Exemption criteria:

However, a parent need not present consolidated financial statements if it meets all of the following:

- it is 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.
- its 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).
- it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market, and
- its ultimate or any intermediate parent of the parent produces financial statements available for public use that comply with IFRSs, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10.

Investment entities are prohibited from consolidating particular subsidiaries. Furthermore, post-employment benefit plans or other long-term employee benefit plans to which IAS 19 Employee Benefits applies are not required to apply the requirements of IFRS 10.

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Consolidation Procedures

Consolidated Financial Statements

- **Combine:** combine like items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries.
- **Offset:** offset (eliminate) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary.
- **Eliminate:** eliminate in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group (profits or losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full).
- **Only post-acquisition:** A reporting entity includes the income and expenses of a subsidiary in the consolidated financial statements from the date it gains control until the date when the reporting entity ceases to control the subsidiary. Income and expenses of the subsidiary are based on the amounts of the assets and liabilities recognised in the consolidated financial statements at the acquisition date.

Reporting Dates

- **Same dates:** The parent and subsidiaries are required to have the same reporting dates, or consolidation based on additional financial information prepared by subsidiary, unless impracticable.
- **If impracticable:** Where impracticable, the most recent financial statements of the subsidiary are used, adjusted for the effects of significant transactions or events between the reporting dates of the subsidiary and consolidated financial statements.

- **Maximum difference:** The difference between the date of the subsidiary's financial statements and that of the consolidated financial statements shall be no more than three months.

Non-Controlling Interests

- **SOPF:** A parent presents non-controlling interests in its consolidated statement of financial position within equity, separately from the equity of the owners of the parent.
- **SOPLOCI:** A reporting entity attributes the profit or loss and each component of other comprehensive income to the owners of the parent and to the non-controlling interests. The proportion allocated to the parent and non-controlling interests are determined on the basis of present ownership interests. The reporting entity also attributes total comprehensive income 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.

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Changes in Group Structures

Disposal/Acquisition Not Resulting In Loss Of Control

- **Nature:** Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions (i.e. transactions with owners in their capacity as owners).
- **Adjustment:** When the proportion of the equity held by non-controlling interests changes, the carrying amounts of the controlling and non-controlling interests area adjusted to reflect the changes in their relative interests in the subsidiary.
- **Difference:** Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent.

Disposal Resulting In Loss Of Control

If a parent loses control of a subsidiary, the parent

- derecognises the assets and liabilities of the former subsidiary from the consolidated statement of financial position
- recognises any investment retained in the former subsidiary when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant IFRSs. That retained interest is remeasured and the remeasured value is regarded as the fair value on initial recognition of a financial asset in accordance with IFRS 9 Financial Instruments or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture
- recognises the gain or loss associated with the loss of control attributable to the former controlling interest.

If a parent loses control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture gains or losses resulting from those transactions are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture.

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Investment Entity

Assessing An Investment Entity

An entity is required to consider all facts and circumstances when assessing whether it is an investment entity, including its purpose and design. IFRS 10 provides that an investment entity should have the following typical characteristics:

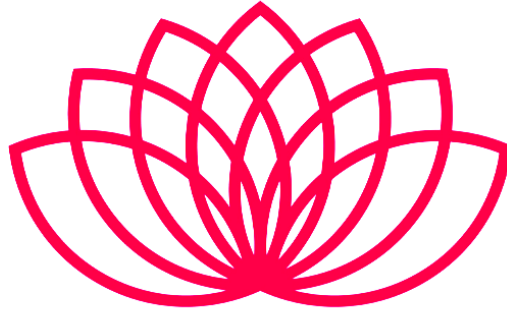
- it has more than one investment
- it has more than one investor
- it has investors that are not related parties of the entity
- it has ownership interests in the form of equity or similar interests.

The absence of any of these typical characteristics does not necessarily disqualify an entity from being classified as an investment entity.

An investment entity is required to measure an investment in a subsidiary at fair value through profit or loss in accordance with IFRS 9 Financial Instruments or IAS 39 Financial Instruments.

Accounting Requirement

- **FVTPL:** An investment entity is required to measure an investment in a subsidiary at fair value through profit or loss in accordance with IFRS 9 Financial Instruments or IAS 39 Financial Instruments:
- **Consolidation related to business subsidiary:** However, an investment entity is still required to consolidate a subsidiary where that subsidiary provides services that relate to the investment entity's investment activities.
- **No elimination:** An investment entity is not required to consolidate its subsidiaries, intragroup related party transactions and outstanding balances are not eliminated.
- **Special accounting:** Special requirements apply where an entity becomes, or ceases to be, an investment entity.
- **Exemption restriction:** The exemption from consolidation only applies to the investment entity itself. Accordingly, a parent of an investment entity is required to consolidate all entities that it controls, including those controlled through an investment entity subsidiary, unless the parent itself is an investment entity.



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www.anantbhattllp.com

CPA Kamal Anantroy Bhatt
Managing Partner
E : kamal@anantbhatt.com

CPA Daniel Kinyae Mumo
Associate Partner
E : daniel@anantbhatt.com

Anant Bhatt LLP
City House, First Floor
Nyerere Avenue
Mombasa, Kenya

P.O. Box 80766-80100
E : info@anantbhatt.com
P : 0726241555, 041-2223682, 041-2226542

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