

International Accounting Standard 27**Separate Financial Statements**

In April 2001 the International Accounting Standards Board (IASB) adopted IAS 27 *Consolidated Financial Statements and Accounting for Investments in Subsidiaries*, which had originally been issued by the International Accounting Standards Committee in April 1989. That standard replaced IAS 3 *Consolidated Financial Statements* (issued in June 1976), except for those parts that dealt with accounting for investment in associates.

In December 2003, the IASB issued a revised IAS 27 with a new title—*Consolidated and Separate Financial Statements*. This revised IAS 27 was part of the IASB's initial agenda of technical projects. The revised IAS 27 also incorporated the guidance from two related Interpretations (SIC-12 *Consolidation—Special Purpose Entities* and SIC-33 *Consolidation and Equity Method—Potential Voting Rights and Allocation of Ownership Interests*).

The IASB amended IAS 27 in January 2008 to address the accounting for non-controlling interests and loss of control of a subsidiary as part of its business combinations project.

In May 2011 the IASB issued a revised IAS 27 with a modified title—*Separate Financial Statements*. IFRS 10 *Consolidated Financial Statements* addresses the principle of control and the requirements relating to the preparation of consolidated financial statements.

Other IFRSs have made minor consequential amendments to IAS 27. They include IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (issued March 2004), IAS 1 *Presentation of Financial Statements* (as revised in September 2007), *Improvements to IFRSs* (issued May 2008) and IFRS 9 *Financial Instruments* (issued November 2009 and October 2010).

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FOR THE ACCOMPANYING DOCUMENTS LISTED BELOW, SEE PART B OF THIS EDITION

APPROVAL BY THE BOARD OF IAS 27 ISSUED IN DECEMBER 2003

APPROVAL BY THE BOARD OF *COST OF AN INVESTMENT IN A SUBSIDIARY, JOINTLY CONTROLLED ENTITY OR ASSOCIATE* (AMENDMENTS TO IFRS 1 AND IAS 27) ISSUED IN MAY 2008

BASIS FOR CONCLUSIONS

DISSENTING OPINIONS

TABLE OF CONCORDANCE

International Accounting Standard 27 *Separate Financial Statements* (IAS 27) is set out in paragraphs 1–20. All the paragraphs have equal authority but retain the IASC format of the Standard when it was adopted by the IASB. IAS 27 should be read in the context of its objective and the Basis for Conclusions, the *Preface to International Financial Reporting Standards* and the *Conceptual Framework for Financial Reporting*. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Introduction

- IN1 IAS 27 *Separate Financial Statements* contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The Standard requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 *Financial Instruments*.
- IN2 The Standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.
- IN3 *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, introduced an exception to the principle in IFRS 10 *Consolidated Financial Statements* that all subsidiaries shall be consolidated. The amendments define an investment entity and require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss in accordance with IFRS 9 (or IAS 39 *Financial Instruments: Recognition and Measurement*, if IFRS 9 has not yet been adopted) instead of consolidating those subsidiaries in its consolidated and separate financial statements. Consequently, the amendments also introduced new disclosure requirements for investment entities in IFRS 12 *Disclosure of Interests in Other Entities*, with related disclosures introduced in this IFRS.

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Separate Financial Statements

Objective

- 1 The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

Scope

- 2 **This Standard shall be applied in accounting for investments in subsidiaries, joint ventures and associates when an entity elects, or is required by local regulations, to present separate financial statements.**
- 3 This Standard does not mandate which entities produce separate financial statements. It applies when an entity prepares separate financial statements that comply with International Financial Reporting Standards.

Definitions

- 4 **The following terms are used in this Standard with the meanings specified:**
- Consolidated financial statements** are 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.
- Separate financial statements** are those presented by a parent (ie an investor with control of a subsidiary) or an investor with joint control of, or significant influence over, an investee, in which the investments are accounted for at cost or in accordance with IFRS 9 *Financial Instruments*.
- 5 The following terms are defined in Appendix A of IFRS 10 *Consolidated Financial Statements*, Appendix A of IFRS 11 *Joint Arrangements* and paragraph 3 of IAS 28 *Investments in Associates and Joint Ventures*:
- associate
 - control of an investee
 - group
 - investment entity
 - joint control
 - joint venture
 - joint venturer
 - parent
 - significant influence
 - subsidiary.

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- 6 Separate financial statements are those presented in addition to consolidated financial statements or in addition to financial statements in which investments in associates or joint ventures are accounted for using the equity method, other than in the circumstances set out in paragraphs 8–8A. Separate financial statements need not be appended to, or accompany, those statements.
- 7 Financial statements in which the equity method is applied are not separate financial statements. Similarly, the financial statements of an entity that does not have a subsidiary, associate or joint venturer's interest in a joint venture are not separate financial statements.
- 8 An entity that is exempted in accordance with paragraph 4(a) of IFRS 10 from consolidation or paragraph 17 of IAS 28 (as amended in 2011) from applying the equity method may present separate financial statements as its only financial statements.
- 8A An investment entity that is required, throughout the current period and all comparative periods presented, to apply the exception to consolidation for all of its subsidiaries in accordance with paragraph 31 of IFRS 10 presents separate financial statements as its only financial statements.

Preparation of separate financial statements

- 9 **Separate financial statements shall be prepared in accordance with all applicable IFRSs, except as provided in paragraph 10.**
- 10 **When an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either:**
- (a) **at cost, or**
 - (b) **in accordance with IFRS 9.**
- The entity shall apply the same accounting for each category of investments. Investments accounted for at cost shall be accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* when they are classified as held for sale (or included in a disposal group that is classified as held for sale). The measurement of investments accounted for in accordance with IFRS 9 is not changed in such circumstances.**
- 11 If an entity elects, in accordance with paragraph 18 of IAS 28 (as amended in 2011), to measure its investments in associates or joint ventures at fair value through profit or loss in accordance with IFRS 9, it shall also account for those investments in the same way in its separate financial statements.
- 11A If a parent is required, in accordance with paragraph 31 of IFRS 10, to measure its investment in a subsidiary at fair value through profit or loss in accordance with IFRS 9, it shall also account for its investment in a subsidiary in the same way in its separate financial statements.
- 11B When a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred, as follows:

- (a) when an entity ceases to be an investment entity, the entity shall, in accordance with paragraph 10, either:
 - (i) account for an investment in a subsidiary at cost. The fair value of the subsidiary at the date of the change of status shall be used as the deemed cost at that date; or
 - (ii) continue to account for an investment in a subsidiary in accordance with IFRS 9.
- (b) when an entity becomes an investment entity, it shall account for an investment in a subsidiary at fair value through profit or loss in accordance with IFRS 9. The difference between the previous carrying amount of the subsidiary and its fair value at the date of the change of status of the investor shall be recognised as a gain or loss in profit or loss. The cumulative amount of any fair value adjustment previously recognised in other comprehensive income in respect of those subsidiaries shall be treated as if the investment entity had disposed of those subsidiaries at the date of change in status.

12 An entity shall recognise a dividend from a subsidiary, a joint venture or an associate in profit or loss in its separate financial statements when its right to receive the dividend is established.

13 When a parent reorganises the structure of its group by establishing a new entity as its parent in a manner that satisfies the following criteria:

- (a) the new parent obtains control of the original parent by issuing equity instruments in exchange for existing equity instruments of the original parent;
- (b) the assets and liabilities of the new group and the original group are the same immediately before and after the reorganisation; and
- (c) the owners of the original parent before the reorganisation have the same absolute and relative interests in the net assets of the original group and the new group immediately before and after the reorganisation,

and the new parent accounts for its investment in the original parent in accordance with paragraph 10(a) in its separate financial statements, the new parent shall measure cost at the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the date of the reorganisation.

14 Similarly, an entity that is not a parent might establish a new entity as its parent in a manner that satisfies the criteria in paragraph 13. The requirements in paragraph 13 apply equally to such reorganisations. In such cases, references to 'original parent' and 'original group' are to the 'original entity'.

Disclosure

15 An entity shall apply all applicable IFRSs when providing disclosures in its separate financial statements, including the requirements in paragraphs 16 and 17.

- 16** When a parent, in accordance with paragraph 4(a) of IFRS 10, elects not to prepare consolidated financial statements and instead prepares separate financial statements, it shall disclose in those separate financial statements:
- (a)** the fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name and principal place of business (and country of incorporation, if different) of the entity whose consolidated financial statements that comply with International Financial Reporting Standards have been produced for public use; and the address where those consolidated financial statements are obtainable.
 - (b)** a list of significant investments in subsidiaries, joint ventures and associates, including:
 - (i)** the name of those investees.
 - (ii)** the principal place of business (and country of incorporation, if different) of those investees.
 - (iii)** its proportion of the ownership interest (and its proportion of the voting rights, if different) held in those investees.
 - (c)** a description of the method used to account for the investments listed under (b).
- 16A** When an investment entity that is a parent (other than a parent covered by paragraph 16) prepares, in accordance with paragraph 8A, separate financial statements as its only financial statements, it shall disclose that fact. The investment entity shall also present the disclosures relating to investment entities required by IFRS 12 *Disclosure of Interests in Other Entities*.
- 17** When a parent (other than a parent covered by paragraphs 16-16A) or an investor with joint control of, or significant influence over, an investee prepares separate financial statements, the parent or investor shall identify the financial statements prepared in accordance with IFRS 10, IFRS 11 or IAS 28 (as amended in 2011) to which they relate. The parent or investor shall also disclose in its separate financial statements:
- (a)** the fact that the statements are separate financial statements and the reasons why those statements are prepared if not required by law.
 - (b)** a list of significant investments in subsidiaries, joint ventures and associates, including:
 - (i)** the name of those investees.
 - (ii)** the principal place of business (and country of incorporation, if different) of those investees.
 - (iii)** its proportion of the ownership interest (and its proportion of the voting rights, if different) held in those investees.

- (c) a description of the method used to account for the investments listed under (b).

Effective date and transition

- 18 An entity shall apply this Standard for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies this Standard earlier, it shall disclose that fact and apply IFRS 10, IFRS 11, IFRS 12 and IAS 28 (as amended in 2011) at the same time.
- 18A *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, amended paragraphs 5, 6, 17 and 18, and added paragraphs 8A, 11A–11B, 16A and 18B–18I. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Early adoption is permitted. If an entity applies those amendments earlier, it shall disclose that fact and apply all amendments included in *Investment Entities* at the same time.
- 18B If, at the date of initial application of the *Investment Entities* amendments (which, for the purposes of this IFRS, is the beginning of the annual reporting period for which those amendments are applied for the first time), a parent concludes that it is an investment entity, it shall apply paragraphs 18C–18I to its investment in a subsidiary.
- 18C At the date of initial application, an investment entity that previously measured its investment in a subsidiary at cost shall instead measure that investment at fair value through profit or loss as if the requirements of this IFRS had always been effective. The investment entity shall adjust retrospectively the annual period immediately preceding the date of initial application and shall adjust retained earnings at the beginning of the immediately preceding period for any difference between:
- (a) the previous carrying amount of the investment; and
 - (b) the fair value of the investor's investment in the subsidiary.
- 18D At the date of initial application, an investment entity that previously measured its investment in a subsidiary at fair value through other comprehensive income shall continue to measure that investment at fair value. The cumulative amount of any fair value adjustment previously recognised in other comprehensive income shall be transferred to retained earnings at the beginning of the annual period immediately preceding the date of initial application.
- 18E At the date of initial application, an investment entity shall not make adjustments to the previous accounting for an interest in a subsidiary that it had previously elected to measure at fair value through profit or loss in accordance with IFRS 9, as permitted in paragraph 10.
- 18F Before the date that IFRS 13 *Fair Value Measurement* is adopted, an investment entity shall use the fair value amounts previously reported to investors or to management, if those amounts represent the amount for which the investment could have been exchanged between knowledgeable, willing parties in an arm's length transaction at the date of the valuation.

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18G If measuring the investment in the subsidiary in accordance with paragraphs 18C–18F is impracticable (as defined in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*), an investment entity shall apply the requirements of this IFRS at the beginning of the earliest period for which application of paragraphs 18C–18F is practicable, which may be the current period. The investor shall adjust retrospectively the annual period immediately preceding the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. When the date that it is practicable for the investment entity to measure the fair value of the subsidiary is earlier than the beginning of the immediately preceding period, the investor shall adjust equity at the beginning of the immediately preceding period for any difference between:

- (a) the previous carrying amount of the investment; and
- (b) the fair value of the investor's investment in the subsidiary.

If the earliest period for which application of this paragraph is practicable is the current period, the adjustment to equity shall be recognised at the beginning of the current period.

18H If an investment entity has disposed of, or lost control of, an investment in a subsidiary before the date of initial application of the *Investment Entities* amendments, the investment entity is not required to make adjustments to the previous accounting for that investment.

18I Notwithstanding the references to the annual period immediately preceding the date of initial application (the 'immediately preceding period') in paragraphs 18C–18G, an entity may also present adjusted comparative information for any earlier periods presented, but is not required to do so. If an entity does present adjusted comparative information for any earlier periods, all references to the 'immediately preceding period' in paragraphs 18C–18G shall be read as the 'earliest adjusted comparative period presented'. If an entity presents unadjusted comparative information for any earlier periods, it shall clearly identify the information that has not been adjusted, state that it has been prepared on a different basis, and explain that basis.

References to IFRS 9

19 If an entity applies this Standard but does not yet apply IFRS 9, any reference to IFRS 9 shall be read as a reference to IAS 39 *Financial Instruments: Recognition and Measurement*.

Withdrawal of IAS 27 (2008)

20 This Standard is issued concurrently with IFRS 10. Together, the two IFRSs supersede IAS 27 *Consolidated and Separate Financial Statements* (as amended in 2008).