

New Zealand Equivalent to International Accounting Standard 27

Consolidated and Separate Financial Statements (NZ IAS 27)

Issued November 2004 and incorporates amendments up to November 2007.

This Standard was issued by the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants* and approved by the Accounting Standards Review Board in November 2004 under the Financial Reporting Act 1993.

This Standard, on adoption, supersedes in part Financial Reporting Standard No. 37 *Consolidating Investments in Subsidiaries* (FRS-37).

The following New Zealand Interpretation relates to NZ IAS 27:

- New Zealand Equivalent to SIC-12 *Consolidation – Special Purpose Entities*

* The New Zealand Institute of Chartered Accountants is the operating name of the Institute of Chartered Accountants of New Zealand, a body established under the Institute of Chartered Accountants of New Zealand Act 1996. All references to the New Zealand Institute of Chartered Accountants, or to the Institute, in this document mean the Institute of Chartered Accountants of New Zealand.

NZ IAS 27

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Contents

New Zealand Equivalent to International Accounting Standard 27

Consolidated and Separate Financial Statements (NZ IAS 27)

	<i>paragraphs</i>
HISTORY OF AMENDMENTS	
INTRODUCTION TO NZ IAS 27	
SCOPE	1 – 3
DEFINITIONS	4 – 8
PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS	9 – 11
SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS	12 – 21
CONSOLIDATION PROCEDURES	22 – 36
ACCOUNTING FOR INVESTMENTS IN SEPARATE FINANCIAL STATEMENTS	37 – 39
DISCLOSURE	40 – 42
EFFECTIVE DATE	43
WITHDRAWAL OF OTHER PRONOUNCEMENTS	44 – 45
 APPENDIX	
Amendments to other pronouncements	
APPROVAL OF IAS 27 BY THE IASB	
IASB BASIS FOR CONCLUSIONS	
IASB DISSENTING OPINION	
IASB IMPLEMENTATION GUIDANCE	

New Zealand Equivalent to International Accounting Standard 27 *Consolidated and Separate Financial Statements* (NZ IAS 27) is set out in paragraphs 1-45. NZ IAS 27 is based on International Accounting Standard 27 *Consolidated and Separate Financial Statements* (IAS 27) (2003) initially issued by the International Accounting Standards Committee (IASC) and subsequently revised by the International Accounting Standards Board (IASB). All the paragraphs have equal authority but retain the IASC format of the Standard when it was adopted by the IASB. NZ IAS 27 should be read in the context of the IASB's Basis for Conclusions on IAS 27, the New Zealand *Preface* and the New Zealand Equivalent to the IASB *Framework for the Preparation and Presentation of Financial Statements* (NZ *Framework*). NZ 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.

Any additional material is shown with grey shading. The paragraphs are denoted with "NZ" and identify the types of entities to which the paragraphs apply.

This Standard uses the terminology adopted in International Financial Reporting Standards (IFRSs) to describe the financial statements and other elements. NZ IAS 1 *Presentation of Financial Statements* (as revised in 2007) paragraph 5 explains that entities other than profit-oriented entities seeking to apply the Standard may need to amend the descriptions used for particular line items in the financial statements and for the financial statements themselves. For example, profit/loss may be referred to as surplus/deficit and capital or share capital may be referred to as equity.

HISTORY OF AMENDMENTS

Table of Pronouncements – NZ IAS 27 Consolidated and Separate Financial Statements

This table lists the pronouncements establishing and amending NZ IAS 27. The table is based on amendments approved as at 30 November 2007.

Pronouncements	Date approved (ASRB approval)	Early operative date	Effective date (annual reporting periods... on or after ...)
NZ IAS 27 <i>Consolidated and Separate Financial Statements</i>	Nov 2004 (Approval 18)	1 Jan 2005	1 Jan 2007
<i>Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to IFRSs Financial Reporting Standards Reporting Regime (Framework for Differential Reporting)</i>	Jun 2005 (Approval 62)	1 Jan 2005	1 Jan 2007
NZ IFRS 8 <i>Operating Segments</i>	Dec 2006 (Approval 85)	Early adoption permitted	1 Jan 2009
NZ IAS 1 <i>Presentation of Financial Statements</i> (revised 2007)	Nov 2007 (Approval 94)	Early application permitted	1 Jan 2009

NZ IAS 27

Table of Amended Paragraphs in NZ IAS 27		
Paragraph affected	How affected	By ... [date]
Introduction	Amended	<i>Framework for Differential Reporting</i> [Jun 2005]
Various	Terminology changed	NZ IAS 1 [Nov 2007]
Paragraph 20	Amended	NZ IFRS 8 [Dec 2006]
Paragraph 30	Amended	NZ IAS 1 [Nov 2007]
Paragraph 43A	Inserted	NZ IAS 1 [Nov 2007]

Introduction to NZ IAS 27

This Standard:

- (a) applies in the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent;
- (b) applies to accounting for investments in subsidiaries, jointly controlled entities and associates by a parent, a venturer or an investor when an entity elects, or is required by local regulations, to present separate financial statements;
- (c) prescribes the circumstances under which an entity is exempted from preparing consolidated financial statements;
- (d) stipulates that the requirement to consolidate investments in subsidiaries applies to venture capital organisations, mutual funds, unit trusts and similar entities;
- (e) requires consolidation of a controlled entity even when the entity operates under severe long-term restrictions that significantly impair its ability to transfer funds to the parent;
- (f) requires an entity to present minority interests in the consolidated statement of financial position within equity, separately from the parent shareholders' equity; and
- (g) prescribes disclosures in consolidated and separate financial statements.

In adopting IAS 27 for application as NZ IAS 27 the following changes have been made. NZ IAS 27:

- (a) includes a definition of public benefit entities at paragraph NZ 4.1;
- (b) requires public benefit entities to comply with the requirements of the Standard at paragraph NZ 12.1; and
- (c) includes at paragraph NZ 27.1 the exception in FRS-37 allowing public benefit entities to have a difference of more than three months between the end of the reporting period of a parent and the end of the reporting period of a subsidiary where statute determines the end of the reporting period of a subsidiary to be greater than three months from the end of the reporting period of the parent.

Profit-oriented entities that comply with NZ IAS 27 will simultaneously be in compliance with IAS 27.

Public benefit entities that comply with NZ IAS 27, other than those public benefit entities applying paragraph NZ 27.1, will simultaneously be in compliance with IAS 27. Entities applying paragraph NZ 27.1 will not comply with the requirements of IAS 27.

Differential Reporting

Qualifying entities must comply with all the provisions in NZ IAS 27.

New Zealand Equivalent to International Accounting Standard 27

Consolidated and Separate Financial Statements (NZ IAS 27)

SCOPE

- 1 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.**
- 2 This Standard does not deal with methods of accounting for business combinations and their effects on consolidation, including goodwill arising on a business combination (see NZ IFRS 3 *Business Combinations*).**
- 3 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

- 4. 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.

The *cost method* is a method of accounting for an investment whereby the investment is recognised at cost. The investor recognises income from the investment only to the extent that the investor receives distributions from retained earnings of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.

A *group* is a parent and all its subsidiaries.

Minority interest is that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the 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 venturer 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 (known as the parent).

Public Benefit Entities

NZ 4.1. The following term is used in this Standard with the meaning specified:

***Public benefit entities* are reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.**

- 5 A parent or its subsidiary may be an investor in an associate or a venturer in a jointly controlled entity. In such cases, consolidated financial statements prepared and presented in accordance with this Standard are also prepared so as to comply with NZ IAS 28 *Investments in Associates* and NZ IAS 31 *Interests in Joint Ventures*.
- 6 For an entity described in paragraph 5, separate financial statements are those prepared and presented in addition to the financial statements referred to in paragraph 5. Separate financial statements need not be appended to, or accompany, those statements.
- 7 The financial statements of an entity that does not have a subsidiary, associate or venturer's interest in a jointly controlled entity are not separate financial statements.
- 8 A parent that is exempted in accordance with paragraph 10 from presenting consolidated financial statements may present separate financial statements as its only financial statements.

PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

- 9 **A parent, other than a parent described in paragraph 10, shall present consolidated financial statements in which it consolidates its investments in subsidiaries in accordance with this Standard.**
- 10 **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 organisation 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 New Zealand equivalents to International Financial Reporting Standards.
- 11 A parent that elects in accordance with paragraph 10 not to present consolidated financial statements, and presents only separate financial statements, complies with paragraphs 37-42.

SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

12 Consolidated financial statements shall include all subsidiaries of the parent.*

Public Benefit Entities

NZ 12.1. Public benefit entities are required to comply with this Standard in full. Additional guidance on whether a public benefit entity controls another entity is set out in International Public Sector Accounting Standard IPSAS 6 *Consolidated and Separate Financial Statements* (paragraphs 26-36) and *FRS-37 Consolidating Investments in Subsidiaries* (paragraphs 4.13-4.37 and 5.9-5.11), and shall be used by public benefit entities in determining whether they control another entity.

- 13 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;

* If on acquisition a subsidiary meets the criteria to be classified as held for sale in accordance with NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, it shall be accounted for in accordance with that Standard.

[†]See also NZ SIC-12 *Consolidation—Special Purpose Entities*.

- (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.
- 14 An entity may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar instruments that have the potential, if exercised or converted, to give the entity voting power or reduce another party's voting power over the financial and operating policies of another entity (potential voting rights). The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by another entity, are considered when assessing whether an entity has the power to govern the financial and operating policies of another entity. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.
- 15 In assessing whether potential voting rights contribute to control, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual arrangements whether considered individually or in combination) that affect potential voting rights, except the intention of management and the financial ability to exercise or convert.
- 16** [Deleted by IASB]
- 17 [Deleted by IASB]
- 18 [Deleted by IASB]
- 19 A subsidiary is not excluded from consolidation simply because the investor is a venture capital organisation, mutual fund, unit trust or similar entity.
- 20 A subsidiary is not excluded from consolidation because its business activities are dissimilar from those of the other entities within the group. Relevant information is provided by consolidating such subsidiaries and disclosing additional information in the consolidated financial statements about the different business activities of subsidiaries. For example, the disclosures required by NZ IFRS 8 *Operating Segments* help to explain the significance of different business activities within the group.
- 21 A parent loses control when it loses the power to govern the financial and operating policies of an investee so as to obtain benefit from its activities. The loss of control can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when a subsidiary becomes subject to the control of a government, court, administrator or regulator. It could also occur as a result of a contractual agreement.

CONSOLIDATION PROCEDURES

- 22 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 investment in each subsidiary and the parent's portion of equity of each subsidiary are eliminated (see NZ IFRS 3, which describes the treatment of any resultant goodwill);
 - (b) minority interests in the profit or loss of consolidated subsidiaries for the reporting period are identified; and
 - (c) minority interests in the net assets of consolidated subsidiaries are identified separately from the parent shareholders' equity in them. Minority interests in the net assets consist of:
 - (i) the amount of those minority interests at the date of the original combination calculated in accordance with NZ IFRS 3; and
 - (ii) the minority's share of changes in equity since the date of the combination.
- 23 When potential voting rights exist, the proportions of profit or loss and changes in equity allocated to the parent and minority interests are determined on the basis of present ownership interests and do not reflect the possible exercise or conversion of potential voting rights.
- 24 Intragroup balances, transactions, income and expenses shall be eliminated in full.**
- 25 Intragroup balances and transactions, including income, expenses and dividends, are eliminated in full. Profits and losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full. Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements. NZ IAS 12 *Income Taxes* applies to temporary differences that arise from the elimination of profits and losses resulting from intragroup transactions.
- 26 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.**

- 27** When, in accordance with paragraph 26, the financial statements of a subsidiary used in the preparation of consolidated financial statements are prepared as of a date different from that of the parent, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the parent's financial statements. In any case, the difference between the end of the reporting period of the subsidiary and that of the parent shall be no more than three months. The length of the reporting periods and any difference between the ends of the reporting periods shall be the same from period to period.

Public Benefit Entities

NZ 27.1. The difference between the end of the reporting periods shall be no more than three months, except in the rare circumstances where:

- (a) statute fixes the end of the reporting period of a subsidiary greater than three months from the end of the reporting period of the parent's own financial statements included in the consolidated financial statements; and
- (b) no reliable interim financial information for the subsidiary covering a reporting period not more than three months different to that of the parent is able to be obtained.

- 28** Consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances.
- 29 If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.
- 30 The income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date as defined in NZ IFRS 3. The income and expenses of a subsidiary are included in the consolidated financial statements until the date on which the parent ceases to control the subsidiary. The difference between the proceeds from the disposal of the subsidiary and its carrying amount as of the date of disposal, including the cumulative amount of any exchange differences that relate to the subsidiary recognised in other comprehensive income in accordance with NZ IAS 21 *The Effects of Changes in Foreign Exchange Rates*, is reclassified to consolidated profit or loss as a reclassification adjustment as the gain or loss on the disposal of the subsidiary.
- 31** An investment in an entity shall be accounted for in accordance with NZ IAS 39 *Financial Instruments: Recognition and Measurement* from the date that it ceases to be a subsidiary, provided that it does not become an

associate as defined in NZ IAS 28 or a jointly controlled entity as described in NZ IAS 31.

- 32 The carrying amount of the investment at the date that the entity ceases to be a subsidiary shall be regarded as the cost on initial measurement of a financial asset in accordance with NZ IAS 39.**
- 33 Minority interests shall be presented in the consolidated statement of financial position within equity, separately from the parent shareholders' equity. Minority interests in the profit or loss of the group shall also be separately disclosed.**
- 34 The profit or loss is attributed to the parent shareholders and minority interests. Because both are equity, the amount attributed to minority interests is not income or expense.
- 35 Losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the subsidiary's equity. The excess, and any further losses applicable to the minority, are allocated against the majority interest except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.
- 36 If a subsidiary has outstanding cumulative preference shares that are held by minority interests and classified as equity, the parent computes its share of profits or losses after adjusting for the dividends on such shares, whether or not dividends have been declared.

ACCOUNTING FOR INVESTMENTS IN SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES IN SEPARATE FINANCIAL STATEMENTS

- 37 When separate financial statements are prepared, investments in subsidiaries, jointly controlled entities and associates that are not classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with NZ IFRS 5 shall be accounted for either:**
- (a) at cost, or**
 - (b) in accordance with NZ IAS 39.**

The same accounting shall be applied for each category of investments. Investments in subsidiaries, jointly controlled entities and associates that are classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with NZ IFRS 5 shall be accounted for in accordance with that Standard.

- 38 This Standard does not mandate which entities produce separate financial statements available for public use. Paragraphs 37 and 39-42 apply when an entity

prepares separate financial statements that comply with New Zealand equivalents to International Financial Reporting Standards. The entity also produces consolidated financial statements available for public use as required by paragraph 9, unless the exemption provided in paragraph 10 is applicable.

- 39 Investments in jointly controlled entities and associates that are accounted for in accordance with NZ IAS 39 in the consolidated financial statements shall be accounted for in the same way in the investor's separate financial statements.**

DISCLOSURE

- 40 The following disclosures shall be made in consolidated financial statements:**

- (a) [Deleted by IASB]
- (b) [Deleted by IASB]
- (c) **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;**
- (d) **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;**
- (e) **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, and the reason for using a different date or period; and**
- (f) **the nature and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans or advances.**

- 41 When separate financial statements are prepared for a parent that, in accordance with paragraph 10, elects not to prepare consolidated financial statements, those separate financial statements shall disclose:**

- (a) **the fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name and country of incorporation or residence of the entity whose consolidated financial statements that comply with New Zealand equivalents to 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, jointly controlled entities and associates, including the name, country of incorporation or residence,**

proportion of ownership interest and, if different, proportion of voting power held; and

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

42 When a parent (other than a parent covered by paragraph 41), venturer with an interest in a jointly controlled entity or an investor in an associate prepares separate financial statements, those separate financial statements shall disclose:

(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, jointly controlled entities and associates, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held; and

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

and shall identify the financial statements prepared in accordance with paragraph 9 of this Standard, NZ IAS 28 and NZ IAS 31 to which they relate.

EFFECTIVE DATE

43 This Standard becomes operative for an entity's financial statements that cover annual accounting periods beginning on or after 1 January 2007. Early adoption of this Standard is permitted only when an entity complies with NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* for an annual accounting period beginning on or after 1 January 2005.

43A NZ IAS 1 (as revised in 2007) amended the terminology used throughout New Zealand equivalents to IFRSs. In addition it amended paragraph 30. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies NZ IAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period

WITHDRAWAL OF OTHER PRONOUNCEMENTS

44-45 [Paragraphs 44 to 45 are not reproduced. The withdrawal of previous IASB pronouncements is not relevant to this Standard.]