Chapter 9 Group Accounts

This guidance gives an overview of the restatements that authorities may need to consider in preparing group accounts under IFRS for the first time. Comprehensive guidance cannot be provided, as the restatements required will depend on the individual circumstances of the entities within the group. For example, some local authority companies may have adopted IFRS using similar accounting policies to the parent authority; in such cases, restatements will be limited. In other cases, a group entity may continue to account under UK GAAP, requiring more restatement.

With the exception of acquisitions (see guidance under 10.1.2.152 below), restated amounts will need to be presented in the opening 1 April 2009 Balance Sheet and the 2009/10 comparative accounts.

10.1.2.152 It is expected that IFRS 3 will apply infrequently to authority Group Accounts. However, where it does apply and there are timing differences when fair value of assets, liabilities and goodwill are measured and recognised when an acquisition takes place in stages, the fair values of the relevant assets, liabilities and goodwill shall be restated (where material). In addition where differences exist in the accounting for goodwill (ie amortisation and 'negative goodwill') the relevant transactions shall be restated.

Paragraph 10.1.1.6 of the Code requires authorities to apply IFRS 3 to acquisitions prospectively from 1 April 2009. Authorities will not need to restate acquisitions prior to that date, and therefore only acquisitions that took place during 2009/10 will need to be restated.

Where acquisitions have taken place within the scope of IFRS 3 during 2009/10, authorities should refer to that standard for the appropriate accounting requirements. In particular, authorities should note that where an acquisition takes place in stages (for example, where an authority holds a non-controlling interest in a company, and subsequently purchases additional shares which give it control of the company), the authority will need to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in Surplus or Deficit on the Provision of Services.

Restate Comparative Figures for 2009/10

10.1.2.153 In the event the group boundary in relation to associates changes, an authority shall consolidate these additional bodies into the Group Accounts.

The SORP's definition of an associate focuses on 'the ability to exercise' significant influence whereas under the Code the focus is on the 'power to participate in the financial and operating policy decisions of the investee'. This could mean some differences in interpretation of those entities brought into the group accounts, with the potential for entities that have previously been outside the group boundary to be classified as associates.

Where the group boundary changes, authorities will need to restate both the opening 1 April 2009 Group Balance Sheet and the 2009/10 comparative group accounts on the basis of the new boundary.

10.1.2.154 Where the authority's accounting policies have changed under IFRS, the relevant amounts of the subsidiary, associate or joint venture shall be adjusted accordingly (where material).

Where the authority's accounting policies have changed under IFRS, the group accounts will need to reflect these accounting policies. Where a subsidiary, associate or joint venture has not adopted the same accounting policies, the relevant amounts will need to be adjusted to bring them in line with the authority's revised accounting policies. The adjustments required will depend on the accounting policies adopted by the subsidiary, associate or joint venture. Where the subsidiary, associate or joint venture has continued to adopt the accounting policies previously used by the authority under the SORP, the guidance in other sections of the transitional guidance may be helpful in restating the amounts of the subsidiary, associate or joint venture. If using the transitional guidance to assist with this restatement, authorities should bear in mind that the entries required to adjust an authority's accounts in line with legislation will not be relevant to most subsidiaries, associates or joint ventures (unless they are also covered by local authority legislation, for example joint committees).

10.1.2.155 Where an authority has disposed of a subsidiary in 2009/10, the gain or loss should be restated to exclude goodwill previously written off to reserves.

The accounting for goodwill under the Code differs to that under the SORP. Under the SORP, there was a rebuttable presumption that the useful life of goodwill would not exceed 20 years; in these cases the goodwill would be amortised. Under the Code, goodwill is not amortised, but is subject to impairment reviews (a similar approach applied under the SORP where the presumption was rebutted).

Where a local authority has disposed of a subsidiary in 2009/10, and a previous acquisition of the company had resulted in the authority recognising goodwill, the gain or loss on disposal may need to be restated to reflect the different accounting requirements for goodwill.

10.1.2.156 Where an authority chooses to use the proportionate consolidation method for consolidating the interests in jointly controlled entities instead of the equity method, the amounts in the group accounts shall be restated to follow the proportionate consolidation method.

The SORP required jointly controlled entities to be consolidated using the gross equity method. The Code permits the use of the proportionate consolidation method, where the authority's share of the jointly controlled entity would be consolidated on a line by line basis (ie the authority would consolidate its share of the jointly controlled entity on the same basis as it would consolidate a subsidiary). Where an authority chooses to use this method, it will need to restate both the opening 1 April 2009 Group Balance Sheet and the 2009/10 comparative group accounts to reflect this method of consolidation.

10.1.2.157 Where an authority chooses to use the equity method for consolidating the interests in jointly controlled entities instead of the proportionate consolidation method, the amounts in the Group financial statements shall be restated to follow the equity method.

The Code also permits the use of the equity method for consolidating jointly controlled entities. The SORP required jointly controlled entities to be consolidated using the gross equity method, whereby turnover and operating costs are shown gross rather than netted off.

Where an authority chooses to use the equity method, it will need to restate the 2009/10 comparative group accounts by netting off the turnover and operating costs of the jointly controlled entity to give a net figure for the profit or loss of the jointly controlled entity.

10.1.2.158 It is implicit in the SORP that adjustments should be made for the effects of significant transactions or events between the differences in period ends of the reporting authority and its subsidiary, associate and jointly controlled entity in the group; where this has not been undertaken authorities shall reflect these adjustments.

The SORP permitted authorities to consolidate the accounts of a subsidiary, associate or jointly controlled entity where the entity's period end was no more than three months prior to the authority's period end. It was implicit in the SORP that adjustments would be required for any significant transactions or events that took place between the entity's period end and the authority's period end (for example, an impairment of a key asset). This requirement is explicit in the Code. Where such adjustments were not previously made, both the opening 1 April 2009 Group Balance Sheet and the comparative 2009/10 group accounts may require restatements to be made.