

## 9.1 Group Accounts

### 9.1.1 Introduction

9.1.1.1 Authorities shall account for Group Accounts in accordance with *IAS 3 Business Combination, IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates, IAS 31 Interests in Joint Ventures, SIC 12 Consolidation – Special Purpose Entities and SIC 13 Jointly Controlled Entities – Non-Monetary Contributions from Venturers*, except where interpretations or adaptations to fit the public sector are detailed in the Code.

9.1.1.2 *IPSAS 6 Consolidated and Separate Financial Statements, IPSAS 7 Investments in Associates and IPSAS 8 Interests in Joint Ventures*, are based on *IAS 27, IAS 28 and IAS 31* respectively, and provide additional guidance for public sector bodies. There is no IPSAS relating to Business Combinations.

#### *Interpretation and adaptation for the Public Sector Context*

9.1.1.3 The following adaptation of *IAS 27*, for the public sector context applies;

- Where an authority has investments in associates and/or interests in joint ventures (jointly controlled entities) but no interests in subsidiaries, group accounts that include these interests in associates and joint ventures (jointly controlled entities) shall still be prepared.

9.1.1.4 The following interpretation of *IFRS 3* for the public sector context applies;

- Machinery of government changes (ie local government reorganisation) are deemed to be a combination of businesses under common control and as such machinery of government changes are excluded from the scope of this section of the Code. For the accounting treatment of machinery of government changes see section 2.5 of the Code.

9.1.1.5 Local authority pension funds shall not be considered for consolidation in Group Accounts (see chapter 6 section 4).

9.1.1.6 Authorities with interests in subsidiaries, associates and/or joint ventures (jointly controlled entities) shall prepare Group Accounts in addition to their single entity financial statements, unless their interest is considered not material.

9.1.1.7 The accounting for business combinations (ie subsidiaries and associates) covered by this section of the Code does not apply to; the formation of a joint venture, the acquisition of an asset or a group of assets that does not constitute a business<sup>1</sup> and a combination of entities or businesses under common control (ie the combination of two or more public sector bodies into one new body, or the transfer of functions from the responsibility of one part of the public sector to another).

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<sup>1</sup> An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic or service benefits directly to investors or other owners, members or participants.

9.1.1.8 *SIC 12* provides guidance to ensure that, regardless of the equity holding and control structure, where in substance the special purpose entity is controlled by the sponsor (ie reporting authority), it should be consolidated. Where an authority considers it has relevant transactions, it shall refer to *SIC 12*.

9.1.1.9 *SIC 13* provides guidance for a venturer (ie reporting authority) on how to account for non-monetary contributions to a jointly controlled entity in exchange for an equity interest in the jointly controlled entity. Where an authority considers it has relevant transactions, it shall refer to *SIC 13*.

*[Consolidation of charities within a reporting authority's Group Accounts is being considered as part of a wider public sector standard approach. When an approach is agreed this will be incorporated into this section of the Code].*

## **9.1.2 Accounting Requirements**

### *Definitions*

9.1.2.1 An *associate* is an entity, including an unincorporated entity such as a partnership, over which the investor (ie reporting authority) has significant influence and that is neither a subsidiary nor an interest in a joint venture.

9.1.2.2 *Control* is the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities. 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:

- power over more than half of the voting rights by virtue of an agreement with other investors;
- power to govern the financial and operating policies of the entity under a statute or an agreement;
- 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
- 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.

9.1.2.3 The *equity method* is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

9.1.2.4 A *group* is a parent and all its subsidiaries, associates and joint ventures.

- 9.1.2.5 *Group Accounts*<sup>2</sup> are the financial statements of a group, plus the investments in associates and interests in joint ventures (jointly controlled entities), presented as a single economic entity.
- 9.1.2.6 An *investor in a joint venture* is a party to a joint venture and does not have joint control over that joint venture.
- 9.1.2.7 *Joint control* is the contractually and binding agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).
- 9.1.2.8 *Joint venture* is a contractual or binding arrangement whereby two or more parties are committed to undertake an activity that is subject to joint control. The contractual or binding arrangement may be evidenced in a number of ways, for example by a contract between the venturers or minutes of discussions between the venturers. In some cases, the arrangement is incorporated in the articles or other by-laws of the joint venture. Whatever its form, the contractual or binding arrangement is usually in writing and deals with such matters as:
- the activity, duration and reporting obligations of the joint venture;
  - the appointment of the board of directors or equivalent governing body of the joint venture and the voting rights of the venturers;
  - capital contributions by the venturers; and
  - the sharing by the venturers of the output, income, expenses or results of the joint venture.
- 9.1.2.9 *Jointly controlled assets* – Some joint ventures involve the joint control, and often the joint ownership, by the venturers of one or more assets contributed to, or acquired for the purpose of, the joint venture and dedicated to the purposes of the joint venture. The assets are used to obtain benefits for the venturers. Each venturer may take a share of the output from the assets and each bears an agreed share of the expenses incurred. These joint ventures do not involve the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer has control over its share of future economic benefits and service potential through its share of the jointly controlled asset.
- 9.1.2.10 *Jointly controlled entity* - is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity. A jointly controlled entity controls the assets of the joint venture, incurs liabilities and expenses and earns income. It may enter into contracts in its own name and raise finance for the purposes of the joint venture activity. Each venturer is entitled to a share of the profits of the jointly controlled

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<sup>2</sup> IAS 27, IAS 28 and IAS 31 use the term ‘Consolidated Financial Statements’ but this has been changed for the purposes of the Code to ‘Group Accounts’.

entity, although some jointly controlled entities also involve a sharing of the output of the joint venture.

- 9.1.2.11 *Jointly controlled operations* - the operation of some joint ventures involves the use of the assets and other resources of the venturers rather than the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer uses its own property, plant and equipment and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finance, which represent its own obligations. The joint venture activities may be carried out by the venturer's employees alongside the venturer's similar activities. The joint venture agreement usually provides a means by which the revenue from the sale of the joint product/service and any expenses incurred in common are shared among the venturers.
- 9.1.2.12 *Minority interest*<sup>3</sup> is the equity in a subsidiary not attributable, directly or indirectly, to a parent.
- 9.1.2.13 A *parent* is an entity (ie reporting authority) that has one or more subsidiaries.
- 9.1.2.14 *Proportionate consolidation* is a method of accounting whereby a venturer's share of each of the assets, liabilities, income and expenses of a joint venture (jointly controlled entity) is combined line by line with similar items in the venturer's single entity financial statements or reported as separate line items to the venturer's single entity financial statements.
- 9.1.2.15 *Separate Financial Statements*<sup>4</sup> are those presented by a parent, an investor in an associate or a venturer in a joint venture (jointly controlled entity), in which the investments are accounted for on the basis of the direct equity interest (ie at cost, or in accordance with Chapter 7) rather than on the basis of the reported results and net assets of the investees. In the context of the Code, an authority's single entity financial statements are deemed to be separate financial statements.
- 9.1.2.16 *Significant influence* is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. If an investor holds, directly or indirectly (eg through subsidiaries), 20 per cent or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly (eg through subsidiaries), less than 20 per cent of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence. The existence of significant influence by an investor is usually evidenced in one or more of the following ways:

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<sup>3</sup> IAS 27 uses the term 'Non-controlling Interest' but this has been changed for the purposes of the Code to 'Minority Interest'.

<sup>4</sup> IAS 27, IAS 28 and IAS 31 use the term 'Separate Financial Statements' but this has been changed for the purposes of the Code to 'Single Entity Financial Statements'.

- representation on the board of directors or equivalent governing body of the investee;
- participation in policy-making processes, including participation in decisions about dividends or other distributions;
- material transactions between the investor and the investee;
- interchange of managerial personnel; or
- provision of essential technical information.

9.1.2.17 *Subsidiary* is an entity, including an unincorporated entity such as a partnership that is controlled by another entity (known as the parent).

9.1.2.18 A *venturer* (ie reporting authority) is a party to a joint venture and has joint control over that joint venture.

*Subsidiaries - consolidation and measurement*

9.1.2.19 A reporting authority shall produce Group Accounts in which it consolidates its investments in subsidiaries, unless the interest is considered not material.

9.1.2.20 On acquisition a subsidiary which meets the criteria to be classified as held for sale in accordance with chapter 4 section 9 of the Code, shall be accounted for in accordance with that section of the Code. Otherwise, in preparing Group Accounts like items of assets, liabilities, reserves, income and expenses are added together line by line to combine the financial statements of the reporting authority and its subsidiaries.

9.1.2.21 Intragroup balances, transactions, income and expenses shall be eliminated in full.

9.1.2.22 Minority interests shall be disclosure separately within the Group Accounts.

9.1.2.23 Changes in a reporting authority's ownership interest in a subsidiary that do not result in a loss of control are accounted for as reserve transactions. In such circumstances the carrying amounts of the controlling and minority interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the minority interests are adjusted and the fair value of the consideration paid or received shall be recognised directly in reserves and attributed to the reporting authority.

9.1.2.24 From the date that a reporting authority loses control of a subsidiary, any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary shall be accounted for in accordance with chapter 7 (financial instruments) or accounted for in accordance with the sub-sections below should the subsidiary become an associate or joint venture (jointly controlled entity). In the event that a reporting authority loses control of a subsidiary, the authority shall refer to *IAS 27* for further accounting requirements.

9.1.2.25 The carrying amount of the investment at the date that it ceases to be a subsidiary shall be regarded as its fair value on initial measurement as a

financial asset in accordance with chapter 7, or when appropriate, the cost on initial recognition of an investment in an associate or interest in a joint venture (jointly controlled entity).

*Associates - consolidation and measurement*

- 9.1.2.26 A reporting authority shall produce Group Accounts in which it consolidates its investments in associates unless the interest is considered not material.
- 9.1.2.27 An investment in an associate which meets the criteria to be classified as held for sale in accordance with chapter 4 section 9 of the Code, shall be accounted for in accordance with that section of the Code. Otherwise, in preparing Group Accounts investments in an associate shall be accounted for using the equity method.
- 9.1.2.28 When an investment in an associate previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for using the equity method as from the date of its classification as held for sale. Financial statements for the periods since classification as held for sale shall be amended accordingly.
- 9.1.2.29 The reporting authority's share of profit or losses resulting from transactions between the reporting authority and its associate shall be eliminated (ie sales of assets from an associate to the reporting authority, and visa versa).
- 9.1.2.30 From the date that a reporting authority ceases to have significant influence over an associate, any investment retained in the former associate shall be accounted for in accordance with chapter 7 (financial instruments: recognition and measurement) or accounted for in accordance with the sub-section above if the associate becomes a subsidiary or the sub-section below if the associate becomes a joint venture (jointly controlled entity). In the event that a reporting authority ceases to have significant influence over an associate the authority should refer to the *IAS 28* for the accounting requirements.
- 9.1.2.31 There may be instances where an impairment loss has to be recognised in relation to the reporting authority's net investment or other long term interests in the associate. In the event that a reporting authority concludes it should recognise an impairment loss it shall refer to *IAS 28* for the accounting requirements.
- 9.1.2.32 The carrying amount of the investment at the date that it ceases to be an associate shall be regarded as its fair value on initial measurement as a financial asset in accordance with chapter 7, or when appropriate, the cost on initial recognition of an investment in a subsidiary or interest in a joint venture (jointly controlled entity).

*Joint Venture - classification*

- 9.1.2.33 There are three broad types of forms and structures that meet the definition of joint ventures:
- jointly controlled entities;

- jointly controlled operations; and
- jointly controlled assets;

*Jointly Controlled Entities - consolidation and measurement*

- 9.1.2.34 A reporting authority shall produce Group Accounts in which it consolidates its interests in a jointly controlled entity, unless the interest is considered not material.
- 9.1.2.35 An interest in a jointly controlled entity which meets the criteria to be classified as held for sale in accordance with chapter 4 section 9 of the Code, shall be accounted for in accordance with that section of the Code. Otherwise, in preparing Group Accounts the interests in a jointly controlled entity shall be accounted for using proportionate consolidation or the equity method.
- 9.1.2.36 When an interest in a jointly controlled entity previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for using the proportionate consolidation or equity method as from the date of its classification as held for sale. Financial statements for the periods since classification as held for sale shall be amended accordingly.
- 9.1.2.37 When the equity method is used to consolidate the interests in a jointly controlled entity, the process follows that of consolidating investments in associates.
- 9.1.2.38 The reporting authority's share of profit or losses resulting from transactions between the reporting authority and its jointly controlled entity shall be eliminated (ie sales of assets from an associate to the reporting authority, and visa versa).
- 9.1.2.39 There may be instances where an impairment loss has to be recognised in relation to the reporting authority's net investment or other long term interests in the jointly controlled entity. In the event that a reporting authority deems it should recognise an impairment loss it should refer to *IAS 31* for the accounting requirements.
- 9.1.2.40 From the date that a reporting authority ceases to have joint control over a jointly controlled entity, any interest retained in the former jointly controlled entity shall be accounted for in accordance with chapter 7 (financial instruments) or accounted for in accordance with the sub-sections above if the jointly controlled entity becomes a subsidiary or an associate. In the event that a reporting authority ceases to have joint control over a jointly controlled entity the authority shall refer to the *IAS 31* for the accounting requirements.
- 9.1.2.41 The carrying amount of the interest at the date that it ceases to be a jointly controlled entity shall be regarded as its fair value on initial measurement as a financial asset in accordance with chapter 7, or when appropriate, the cost on initial recognition of an investment in a subsidiary or associate.

*Jointly Controlled Operation - consolidation and measurement*

- 9.1.2.42 In respect of jointly controlled operations, a reporting authority shall recognise in its single entity financial statements the assets that it controls and the liabilities that it incurs, the expenses that it incurs and its share of the income that it earns from the sale or provision of goods or services. There is no requirement for an authority to produce Group Accounts where the authority only has an interest in a jointly controlled operation.

*Jointly Controlled Assets - consolidation and measurement*

- 9.1.2.43 In respect of jointly controlled assets, a reporting authority shall recognise in its single entity financial statements its share of the jointly controlled assets, any liabilities/expenses that it incurs on its own behalf in respect of its interest in the joint venture or share of liabilities/expenses incurred jointly with the other venturers, and any income that it earns from the output of the joint venture.
- 9.1.2.44 Because the assets, liabilities, income (if any) and expenses of jointly controlled operations and jointly controlled assets are recognised in the single entity financial statements of the authority, no adjustments or other consolidation procedures are required in respect of these items when the authority presents Group Accounts. There is no requirement for an authority to produce Group Accounts where the authority only has an interest in jointly controlled assets.
- 9.1.2.45 Operators or managers of a joint venture shall account for any fees in accordance with section 2.7 (Revenue Recognition).

*Accounting periods and dates*

- 9.1.2.46 The financial statements of the reporting authority and its subsidiary, associate and jointly controlled entity used in the preparation of the Group Accounts shall be prepared as of the same date. When the end of the reporting period of the reporting authority is different from that of a subsidiary, associate and jointly controlled entity, the subsidiary, associate and jointly controlled entity prepares, for consolidation purposes, additional financial statements as of the same date as the financial statements of the reporting authority unless it is impracticable to do so.
- 9.1.2.47 Where the financial year-ends of the reporting authority and its subsidiary, associate and jointly controlled entity in the group do not converge, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the reporting authority's financial statements. The adjustments shall be restricted to the reporting period of the subsidiary, associate and jointly controlled entity, and that of the reporting authority of no more than three months.

*Uniform accounting policies*

- 9.1.2.48 Group Accounts shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances. The accounting policies of the subsidiaries, associates and jointly controlled entities shall be aligned with the policies of the reporting authority, for the purposes of Group Accounts, where materially different. Such adjustments as are necessary to align the group accounting policies may be made as consolidation adjustments.

*Single entity financial statements – measurement of investments in subsidiaries and associates and interests in jointly controlled entities*

9.1.2.49 Within the reporting authority's single entity financial statements, investments in subsidiaries and associates and interests in jointly controlled entities that are not classified as held for sale (see chapter 4 section 9) shall be accounted for either:

- at cost, or
- in accordance with Chapter 7 (financial instruments)

9.1.2.50 The reporting authority shall apply the same accounting for each category of investments.

*Accounting for acquisitions in subsidiaries and associates*

9.1.2.51 A reporting authority shall account for the acquisition of subsidiaries and associates by applying the acquisition method. The use of merger accounting is not permitted, with the exception of machinery of government changes (see section 2.5 of the Code). The determination of the acquisition date, recognition and measurement of the identifiable assets acquired, the liabilities assumed and any minority interests, and the recognition and measurement of goodwill or a gain from a bargain purchase are addressed in *IFRS 3*. In the event that authorities acquire investments in a subsidiary or associate, the authority should refer to *IFRS 3*.

**9.1.3 Statutory Accounting Requirements**

9.1.3.1 There are no statutory accounting requirements in relation to Group Accounts.

**9.1.4 Disclosure Requirements**

9.1.4.1 The accounting policies of the subsidiaries, associates and jointly controlled entities shall be aligned with the policies of the reporting authority, for the purposes of Group Accounts. The disclosure of the accounting policies of the authority is required (see section 3.4 of the Code).

9.1.4.2 Having regard to paragraph 3.5.2.25 of the Presentation of Financial Statements section of the Code, authorities shall disclose the following notes in relation to Group Accounts:

*Subsidiaries*

- (1) The following disclosures shall be made in Group Accounts:
  - (a) the nature of the relationship between the reporting authority and a subsidiary when the reporting authority does not own, directly or indirectly through subsidiaries, more than half of the voting power;
  - (b) 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;
  - (c) 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 reporting authority's financial statements, and the reason for using a different date or period;
- (d) 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;
  - (e) a schedule that shows the effects of any changes in a reporting authority's ownership interest in a subsidiary that do not result in a loss of control on the equity attributable to reporting authority; and
  - (f) if control of a subsidiary is lost, the reporting authority shall disclose the gain or loss, if any.
    - (i) the portion of that gain or loss attributable to recognising any investment retained in the former subsidiary at its fair value at the date when control is lost; and
    - (ii) the line item(s) in the Group Comprehensive Income and Expenditure Statement in which the gain or loss is recognised (if not presented separately in the Group Comprehensive Income and Expenditure Statement).

#### *Associates*

- (2) The following disclosures shall be made:
  - (a) the fair value of investments in associates for which there are published price quotations;
  - (b) summarised financial information of associates, including the aggregated amounts of assets, liabilities, revenues and profit or loss;
  - (c) the reasons why the presumption that an reporting authority does not have significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, less than 20 per cent of the voting or potential voting power of the investee but concludes that it has significant influence;
  - (d) the reasons why the presumption that a reporting authority has significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, 20 per cent or more of the voting or potential voting power of the investee but concludes that it does not have significant influence;
  - (e) the reporting date of the financial statements of an associate, when such financial statements are used in applying the equity method and are as of a reporting date or for a period that is different from that of the reporting authority, and the reason for using a different reporting date or different period;
  - (f) the nature and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of associates to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances;
  - (g) the unrecognised share of losses of an associate, both for the period and cumulatively, if an investor has discontinued recognition of its share of losses of an associate;
  - (h) the fact that an associate is not accounted for using the equity method because it is classified as held for sale in accordance with chapter 4 section 9 of the Code; and
  - (i) summarised financial information of associates, either individually or in groups, that are not accounted for using the equity method, including the amounts of total assets, total liabilities, revenues and profit or loss.

- (3) Investments in associates accounted for using the equity method shall be classified as non-current assets. The reporting authority's share of the profit or loss of such associates, and the carrying amount of those investments, shall be separately disclosed. The reporting authority's share of any discontinued operations of such associates shall also be separately disclosed.
- (4) The reporting authority's share of changes recognised directly in the associate's other comprehensive income and expenditure shall be recognised directly in other comprehensive income and expenditure by the reporting authority.
- (5) In accordance with Chapter 8 section 2, the reporting authority shall disclose:
  - (a) its share of the contingent liabilities of an associate incurred jointly with other investors; and
  - (b) those contingent liabilities that arise because the investor is severally liable for all or part of the liabilities of the associate

#### *Joint Ventures*

- (6) A reporting authority shall disclose the aggregate amount of the following contingent liabilities, unless the probability of loss is remote, separately from the amount of other contingent liabilities:
  - (a) any contingent liabilities that the reporting authority has incurred in relation to its interests in joint ventures and its share in each of the contingent liabilities that have been incurred jointly with other venturers;
  - (b) its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable; and
  - (c) those contingent liabilities that arise because the reporting authority is contingently liable for the liabilities of the other venturers of a joint venture.
- (7) A reporting authority shall disclose the aggregate amount of the following commitments in respect of its interests in joint ventures separately from other commitments:
  - (a) any capital commitments of the reporting authority in relation to its interests in joint ventures and its share in the capital commitments that have been incurred jointly with other venturers; and
  - (b) its share of the capital commitments of the joint ventures themselves.
- (8) A reporting authority shall disclose a listing and description of interests in significant joint ventures and the proportion of ownership interest held in jointly controlled entities. A reporting authority that recognises its interests in jointly controlled entities using the line-by-line reporting format for proportionate consolidation or the equity method shall disclose the aggregate amounts of each of current assets, long-term assets, current liabilities, long-term liabilities, income and expenses related to its interests in joint ventures.
- (9) A reporting authority shall disclose the method it uses to recognise its interests in jointly controlled entities.

#### *Business Combinations*

- (10) An acquirer (ie reporting authority) shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of business combinations that were effected:
- (a) during the period.
  - (b) after the balance sheet date but before the financial statements are authorised for issue (see Chapter 3 section 8).

To meet the disclosure requirements in paragraph 10 above, the acquirer shall refer to paragraphs B64-B66 of *IFRS3*.

- (11) An acquirer (ie reporting authority) shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognised in the current period that relate to business combinations that occurred in the period or in previous reporting periods.

To meet the disclosure requirements in paragraph 11 above, the acquirer shall refer to paragraph B67 of *IFRS3*.

### **9.1.5 Statutory Disclosure Requirements**

- 9.1.5.1 There are no statutory disclosures required in relation to Group Accounts.

### **9.1.6 Changes since SORP 2009**

- 9.1.6.1 The Code allows consolidation of non-coterminous reported financial statements where the subsidiary, associate or joint venture's period end is within three months of the period end of the authority. The SORP permits consolidation of the subsidiary, associate or joint venture's reported results where their period end is no more than three months before the authority's reporting year end.
- 9.1.6.2 The calculation of the gain or loss on disposal of a subsidiary differs. Under the Code, it excludes goodwill previously written off to reserves. Under the SORP goodwill previously written off to reserves is included in the calculation of the gain or loss on disposal.
- 9.1.6.3 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.
- 9.1.6.4 Under the SORP, joint ventures are defined as 'an entity in which the reporting authority has an interest on a long-term basis and is jointly controlled by the reporting authority and one or more other entities under a contractual or other binding arrangement'. The Code defines joint ventures as 'a contractual or binding arrangement whereby two or more parties undertake an activity which is subject to joint control'. The SORP's definition is therefore narrower than the Code, which could mean some differences in interpretation of those entities brought into the group accounts.

- 9.1.6.5 The SORP requires the use of the gross equity method for the consolidation of jointly controlled entities. The Code requires the use of proportionate consolidation or equity method.
- 9.1.6.6 Although *IFRS 3* will only apply infrequently to authority Group Accounts, there are differences to the SORP in the timing of when fair value of assets, liabilities and goodwill are measured and recognised (ie where the acquisition takes place in stages). Differences also exist with regard to accounting for goodwill; under *IFRS 3* goodwill is not amortised but subject to impairment testing as required by *IAS 36 Impairment of Assets* (see chapter 4 section 7 of the Code), under the SORP, there is a rebuttable presumption that the useful life of goodwill does not exceed 20 years, but it permits an indefinite useful life and includes annual impairment reviews. In addition there are differences in the accounting treatment of 'excess of acquirer's interest in the net fair value of acquiree's' (referred to as 'negative goodwill' in the SORP).

## **Transition arrangements – Group Accounts**

The exemption to apply *IFRS 3 Business Combinations* retrospectively to past business combinations that occurred before the date of transition, shall not be permitted on first time adoption of IFRS.

The exemption to apply the requirements of paragraphs 28, 30, 31 and 34-37 (in relation to minority interests) of *IAS 27 Consolidated and Separate Financial Statements* prospectively from the date of transition, shall be permitted on first time adoption of IFRS.

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.

### **Step 1 - Restate Comparative Figures for 2009/10**

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

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 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.

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.

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.