HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKICPA Standard Setting Department Staff Summary (April 2008)

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The HKICPA Standard Setting Department welcomes your comments and feedback, which should be sent to commentletters@hkicpa.org.hk.

Introduction

1. Hong Kong Accounting Standard 27 *Consolidated and Separate Financial Statements* (HKAS 27 (Revised)) replaces HKAS 27 *Consolidated and Separate Financial Statements* (issued in 2004) as amended in 2005 and 2007. It is effective for annual periods beginning on or after 1 July 2009. Earlier application is permitted provided that HKFRS 3 *Business Combinations* (as revised in 2008) is applied at the same time.

Reasons for revising HKAS 27

2. The objective of the Hong Kong Institute of Certified Public Accountants (HKICPA) in revising HKAS 27 is to maintain international convergence arising from the revision of IAS 27 *Consolidated and Separate Financial Statements* by the International Accounting Standards Board (IASB).

   The IASB amended IAS 27 as part of the second phase of the business combinations project. That phase of the project was undertaken jointly with the US Financial Accounting Standard Board (FASB). The amendments related, primarily, to accounting for non-controlling interests and the loss of control of a subsidiary. The IASB and FASB concluded the second phase of the project by the IASB issuing the amended IAS 27 and the FASB issuing FASB Statement No. 160 *Noncontrolling Interests in Consolidated Financial Statements*, along with, respectively, a revised IFRS 3 *Business Combinations* and FASB Statement No. 141 (revised 2007) *Business Combinations*.

Main features of HKAS 27 (Revised)

3. The objective of HKAS 27 is to enhance the relevance, reliability and comparability of the information that a parent entity provides in its separate financial statements and in its consolidated financial statements for a group of entities under its control. The Standard specifies:

   (a) the circumstances in which an entity must consolidate the financial statements of another entity (being a subsidiary);

   (b) the accounting for changes in the level of ownership interest in a subsidiary;

   (c) the accounting for the loss of control of a subsidiary; and

   (d) the information that an entity must disclose to enable users of the financial statements to evaluate the nature of the relationship between the entity and its subsidiaries.

Presentation of consolidated financial statements

4. A parent must consolidate its investments in subsidiaries. There is a limited exception available to some non-public entities. However, that exception does not relieve venture capital organisations, mutual funds, unit trusts and similar entities from consolidating their subsidiaries.

Consolidation procedures

5. A group must use uniform accounting policies for reporting like transactions and other events in similar circumstances. The consequences of transactions, and balances, between entities within the group must be eliminated.

Non-controlling interests

6. Non-controlling interests must be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the ownership interests

7. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity.

8. When an entity loses control of a subsidiary it derecognises the assets and liabilities and related equity components of the former subsidiary. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost.

Separate financial statements

9. When an entity elects, or is required by local regulations, to present separate financial statements, investments in subsidiaries, jointly controlled entities and associates must be accounted for at cost or in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement*.

Disclosure

10. An entity must disclose information about the nature of the relationship between the parent entity and its subsidiaries.

Main changes from previous requirements

11. The term minority interest is replaced by the term non-controlling interest, which is defined as the equity in a subsidiary not attributable, directly or indirectly, to a parent.

12. An entity must attribute total comprehensive income to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The previous version required excess losses to be allocated to the owners of the parent, except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

13. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for as equity transactions and no gain or loss is recognised in profit or loss. The previous version did not have requirements for such transactions.

14. The Standard specifies how an entity measures any gain or loss arising on the loss of control of a subsidiary. Any gain or loss is recongised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The retained investment is measured in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement* or, if appropriate, as the cost on initial investment of an investment in an associate or jointly controlled entity. The previous version required the carrying amount of an investment retained in the former subsidiary to be regarded as its cost on initial measurement of the financial asset in accordance with HKAS 39.

Other references on IAS 27 (Revised)

1. Deloitte IAS Plus on IASB revises IFRS 3 and IAS 27

   http://www.iasplus.com/iasplus/0801buscomb.pdf

2. Ernst & Young IFRS Alert on Business Combinations and Consolidations – Revisions to IFRS 3 and IAS 27

   http://www.ey.com/Global/assets.nsf/International/IFRSAlert_23/$file/EY_IFRSAlert_Issue23.pdf

3. KPMG IFRS Briefing Sheet on Revised standard IFRS 3 *Business Combinations* (2008) and amended standard IAS 27 *Consolidated and Separate Financial Statements* (2008)

   http://www.kpmg.com.hk/en/virtual_library/Audit/IFRS_briefingsheet/IFRSBS0881.pdf

4. PricewaterhouseCoopers HKFRS News on Business Combinations Phase II: IFRS 3 and IAS 27 amendments

   http://www.pwchk.com/webmedia/doc/633365293855235500_hkfrs_news_jan2008.pdf

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