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**STATUTORY BOARD FINANCIAL  
REPORTING STANDARD**

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**SB-FRS 27**

**Consolidated and Separate  
Financial Statements**

SB-FRS 27 *Consolidated and Separate Financial Statements* applies to Statutory Boards for annual periods beginning on or after 1 January 2004.

This Standard is equivalent to FRS 27 *Consolidated and Separate Financial Statements* by the Council on Corporate Disclosure and Governance on 22 February 2007.

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*paragraphs*

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Consolidated and Separate Financial Statements**

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Statutory Board Financial Reporting Standards 27 *Consolidated and Separate Financial Statements* (SB-FRS 27) is set out in paragraphs 1-45 and the Appendix. All the paragraphs have equal authority. SB-FRS 27 should be read in the context of the *Preface to Statutory Board Financial Reporting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. SB-FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

# STATUTORY BOARD FINANCIAL REPORTING STANDARDS SB-FRS 27

## Consolidated and Separate Financial Statements

### 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 SB-FRS 103 *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 accumulated profits 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).***

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 SB-FRS 28 *Investments in Associates* and SB-FRS 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.***
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.<sup>†</sup>***
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;
  - (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

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<sup>†</sup> If on acquisition a subsidiary meets the criteria to be classified as held for sale in accordance with SB-FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*, it shall be accounted for in accordance with that Standard.

\* See also INT SB-FRS 12 *Consolidation—Special Purpose Entities*.

- (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]
- 17. [Deleted]
- 18. [Deleted]
- 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 SB-FRS 108 *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 SB-FRS 103, 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 SB-FRS 103; 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. SB-FRS 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 reporting date. When the reporting dates of the parent and a subsidiary are different, 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 reporting 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 parents financial statements. In any case, the difference between the reporting date of the subsidiary and that of the parent shall be no more than three months. The length of the reporting periods and any difference in the reporting dates shall be the same from period to period.***
- 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 SB-FRS 103. 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 equity in accordance with SB-FRS 21 *The Effects of Changes in Foreign Exchange Rates*, is recognised in the consolidated income statement as the gain or loss on the disposal of the subsidiary.
- 31. ***An investment in an entity shall be accounted for in accordance with SB-FRS 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 SB-FRS 28 or a jointly controlled entity as described in SB-FRS 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 SB-FRS 39.***

33. ***Minority interests shall be presented in the consolidated balance sheet 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 SB-FRS 105 shall be accounted for either:***
- (a) ***at cost, or***
  - (b) ***in accordance with SB-FRS 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 SB-FRS 105 shall be accounted for in accordance with that SB-FRS.***

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 Statutory Board Financial Reporting Standardss. 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 SB-FRS 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]***
  - (b) ***[Deleted]***
  - (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 reporting date of the financial statements of a subsidiary when such financial statements are used to prepare consolidated financial statements and are as of a reporting date or for a period that is different from that of the parent, and the reason for using a different reporting date or period; and*
  - (f) *the nature and extent of any significant restrictions (e.g. 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 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, SB-FRS 28 and SB-FRS 31 to which they relate.*

## **Effective Date**

43. *Statutory Boards' shall apply this Standard for annual periods beginning on or after 1 January 2004.*

## Appendix

### Implementation Guidance

#### **Guidance on implementing SB-FRS 27 *Consolidated and Separate Financial Statements, SB-FRS 28 Investments in Associates and SB-FRS 31 Interests in Joint Ventures.***

*This guidance accompanies SB-FRS 27, SB-FRS 28 and SB-FRS 31, but is not part of them.*

### Consideration of Potential Voting Rights

#### Introduction

IG1. Paragraphs 14, 15 and 23 of SB-FRS 27 *Consolidated and Separate Financial Statements* and paragraphs 8 and 9 of SB-FRS 28 *Investments in Associates* require an entity to consider the existence and effect of all potential voting rights that are currently exercisable or convertible. They also require all facts and circumstances that affect potential voting rights to be examined, except the intention of management and the financial ability to exercise or convert potential voting rights. Because the definition of joint control in paragraph 3 of SB-FRS 31 *Interests in Joint Ventures* depends upon the definition of control, and because that Standard is linked to SB-FRS 28 for application of the equity method, this guidance is also relevant to SB-FRS 31.

#### Guidance

IG2. Paragraph 4 of SB-FRS 27 defines control as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Paragraph 2 of SB-FRS 28 defines significant influence as the power to participate in the financial and operating policy decisions of the investee but not to control those policies. Paragraph 3 of SB-FRS 31 defines joint control as the contractually agreed sharing of control over an economic activity. In these contexts, power refers to the ability to do or effect something. Consequently, an entity has control, joint control or significant influence when it currently has the ability to exercise that power, regardless of whether control, joint control or significant influence is actively demonstrated or is passive in nature. Potential voting rights held by an entity that are currently exercisable or convertible provide this ability. The ability to exercise power does not exist when potential voting rights lack economic substance (e.g. the exercise price is set in a manner that precludes exercise or conversion in any feasible scenario). Consequently, potential voting rights are considered when, in substance, they provide the ability to exercise power.

IG3. Control and significant influence also arise in the circumstances described in paragraph 13 of SB-FRS 27 and paragraphs 6 and 7 of SB-FRS 28 respectively, which include consideration of the relative ownership of voting rights. SB-FRS 31 depends on SB-FRS 27 and SB-FRS 28 and references to SB-FRS 27 and SB-FRS 28 from this point onwards should be read as being relevant to SB-FRS 31. Nevertheless it should be borne in mind that joint control involves contractual sharing of control and this contractual aspect is likely to be the critical determinant. Potential voting rights such as share call options and convertible debt are capable of changing an entity's voting power over another entity—if the potential voting rights are exercised or converted, then the relative ownership of the ordinary shares carrying voting rights changes. Consequently, the existence of control (the definition of which permits only one entity to have control of another entity) and significant influence are determined only after assessing all the factors described in paragraph 13 of SB-FRS 27 and paragraphs 6 and 7 of SB-FRS 28 respectively, and considering the existence and effect of potential voting rights. In addition, the entity examines all facts and circumstances that affect potential voting rights except the intention of management and the financial ability to exercise or convert. The

intention of management does not affect the existence of power and the financial ability of an entity to exercise or convert is difficult to assess.

- IG4. An entity may initially conclude that it controls or significantly influences another entity after considering the potential voting rights that it can currently exercise or convert. However, the entity may not control or significantly influence the other entity when potential voting rights held by other parties are also currently exercisable or convertible. Consequently, an entity considers all potential voting rights held by it and by other parties that are currently exercisable or convertible when determining whether it controls or significantly influences another entity. For example, all share call options are considered, whether held by the entity or another party. Furthermore, the definition of control in paragraph 4 of SB-FRS 27 permits only one entity to have control of another entity. Therefore, when two or more entities each hold significant voting rights, both actual and potential, the factors in paragraph 13 of SB-FRS 27 are reassessed to determine which entity has control.
- IG5. The proportion allocated to the parent and minority interests in preparing consolidated financial statements in accordance with SB-FRS 27, and the proportion allocated to an investor that accounts for its investment using the equity method in accordance with SB-FRS 28, are determined solely on the basis of present ownership interests. The proportion allocated is determined taking into account the eventual exercise of potential voting rights and other derivatives that, in substance, give access at present to the economic benefits associated with an ownership interest.
- IG6. In some circumstances an entity has, in substance, a present ownership as a result of a transaction that gives it access to the economic benefits associated with an ownership interest. In such circumstances, the proportion allocated is determined taking into account the eventual exercise of those potential voting rights and other derivatives that give the entity access to the economic benefits at present.
- IG7. SB-FRS 39 *Financial Instruments: Recognition and Measurement* does not apply to interests in subsidiaries, associates and jointly controlled entities that are consolidated, accounted for using the equity method or proportionately consolidated in accordance with SB-FRS 27, SB-FRS 28 and SB-FRS 31 respectively. When instruments containing potential voting rights in substance currently give access to the economic benefits associated with an ownership interest, and the investment is accounted for in one of the above ways, the instruments are not subject to the requirements of SB-FRS 39. In all other cases, instruments containing potential voting rights are accounted for in accordance with SB-FRS 39.

### **Illustrative Examples**

- IG8. The five examples below each illustrate one aspect of a potential voting right. In applying SB-FRS 27, SB-FRS 28 or SB-FRS 31, an entity considers all aspects. The existence of control, significant influence and joint control can be determined only after assessing the other factors described in SB-FRS 27, SB-FRS 28 and SB-FRS 31. For the purpose of these examples, however, those other factors are presumed not to affect the determination, even though they may affect it when assessed.

#### *Example 1: Options are out of the money*

Entities A and B own 80 per cent and 20 per cent respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity C. Entity A sells one-half of its interest to Entity D and buys call options from Entity D that are exercisable at any time at a premium to the market price when issued, and if exercised would give Entity A its original 80 per cent ownership interest and voting rights.

Though the options are out of the money, they are currently exercisable and give Entity A the power to continue to set the operating and financial policies of Entity C, because Entity A could exercise its options now. The existence of the potential voting rights, as well as the other factors described in paragraph 13 of SB-FRS 27, are considered and it is determined that Entity A controls Entity C.



*Example 2: Possibility of exercise or conversion*

Entities A, B and C own 40 per cent, 30 per cent and 30 per cent respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity D. Entity A also owns call options that are exercisable at any time at the fair value of the underlying shares and if exercised would give it an additional 20 per cent of the voting rights in Entity D and reduce Entity B's and Entity C's interests to 20 per cent each. If the options are exercised, Entity A will have control over more than one-half of the voting power. The existence of the potential voting rights, as well as the other factors described in paragraph 13 of SB-FRS 27 and paragraphs 6 and 7 of SB-FRS 28, are considered and it is determined that Entity A controls Entity D.

*Example 3: Other rights that have the potential to increase an entity's voting power or reduce another entity's voting power*

Entities A, B and C own 25 per cent, 35 per cent and 40 per cent respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity D. Entities B and C also have share warrants that are exercisable at any time at a fixed price and provide potential voting rights. Entity A has a call option to purchase these share warrants at any time for a nominal amount. If the call option is exercised, Entity A would have the potential to increase its ownership interest, and thereby its voting rights, in Entity D to 51 per cent (and dilute Entity B's interest to 23 per cent and Entity C's interest to 26 per cent).

Although the share warrants are not owned by Entity A, they are considered in assessing control because they are currently exercisable by Entities B and C. Normally, if an action (e.g. purchase or exercise of another right) is required before an entity has ownership of a potential voting right, the potential voting right is not regarded as held by the entity. However, the share warrants are, in substance, held by Entity A, because the terms of the call option are designed to ensure Entity A's position. The combination of the call option and share warrants gives Entity A the power to set the operating and financial policies of Entity D, because Entity A could currently exercise the option and share warrants. The other factors described in paragraph 13 of SB-FRS 27 and paragraphs 6 and 7 of SB-FRS 28 are also considered, and it is determined that Entity A, not Entity B or C, controls Entity D.

*Example 4: Management intention*

Entities A, B and C each own 33 per cent of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity D. Entities A, B and C each have the right to appoint two directors to the board of Entity D. Entity A also owns call options that are exercisable at a fixed price at any time and if exercised would give it all the voting rights in Entity D. The management of Entity A does not intend to exercise the call options, even if Entities B and C do not vote in the same manner as Entity A. The existence of the potential voting rights, as well as the other factors described in paragraph 13 of SB-FRS 27 and paragraphs 6 and 7 of SB-FRS 28, are considered and it is determined that Entity A controls Entity D. The intention of Entity A's management does not influence the assessment.

*Example 5: Financial ability*

Entities A and B own 55 per cent and 45 per cent respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity C. Entity B also holds debt instruments that are convertible into ordinary shares of Entity C. The debt can be converted at a substantial price, in comparison with Entity B's net assets, at any time and if converted would require Entity B to borrow additional funds to make the payment. If the debt were to be converted, Entity B would hold 70 per cent of the voting rights and Entity A's interest would reduce to 30 per cent.

Although the debt instruments are convertible at a substantial price, they are currently convertible and the conversion feature gives Entity B the power to set the operating and financial policies of Entity C. The existence of the potential voting rights, as well as the other factors described in paragraph 13 of SB-FRS 27, are considered and it is determined that

Entity B, not Entity A, controls Entity C. The financial ability of Entity B to pay the conversion price does not influence the assessment.