IFRS 10
Consolidated financial statements

1. Objective

This Standard is aimed at establishing principles for the preparation and presentation of consolidated financial statements when an entity controls one or more other entities. It does not, however, address the accounting requirements covering business combinations and their impact on consolidation (IFRS 3).

2. Scope

IFRS 10 stipulates that an investor controls an investee (subsidiary company) when:

- it holds power over the investee (it has the ability to direct the investee's relevant activities, being those that have a substantial impact on the investee's returns);
- it has exposure or rights to variable returns from its involvement with the investee;
- it has the ability to use its power over the investee to affect the amount of the investor's returns.

Example 1: Rights to be considered in assessing the level of power over the relevant activities of the investee (subsidiary company) include:

- voting rights (current and potential)
- agreements with other investors
- right to appoint or dismiss key personnel
- right to appoint or dismiss another entity that governs the relevant activities
- contractual right to govern the activities.

3. Accounting impact

IFRS 10 requires that the parent company prepare consolidated financial statements using uniform accounting policies for like transactions and similar events.

In the event that non-controlling interests (previously referred to as minority interests) are held (i.e. where the parent owns less than 100% of the equity in the investee), the parent company must present these interests in the consolidated statement of financial position, within equity, but separately from the equity of the owners of the parent.

Just as a reminder, full consolidation involves:

- aggregating on a line-by-line basis, the financial statements of the companies included in the scope of consolidation;
- offsetting the equity investments held in the subsidiaries included within the consolidation by taking into account the proportion of equity held and the proportion of non-controlling interests (noting that any potential goodwill would be accounted for in accordance with IFRS 3);
- eliminating inter-company balances and inter-company items of revenue and expense, relating to entities included within the scope of the consolidation;
- adjusting for restatements aimed at ensuring that uniform accounting policies are applied to the consolidated financial statement;
- carrying out various consolidation adjustments, including recognition of deferred tax.

Example 2: Company X is held by shareholders Y and Z, who respectively own a 70% and 30% stake in X. However, Z also holds bonds that it can convert at any time into shares of X. If all the bonds issued by X were to be converted, the percentage of Z's voting rights would then be 65%. In this case, it is indeed Z controlling X and not Y.

Example 3: Company X owns company Y. Y depreciates its fixed assets using the reducing balance method, whereas the group applies the straight-line method. Therefore, the depreciation recognized by Y should be restated to ensure that the accounting policies are uniform.

	Reducing balance method at Y	**Straight-line method used by the group**	**Difference**
Depreciation charge for period N	200,000	170,000	30,000
Depreciation provision at beginning of period	400,000	300,000	100,000
Depreciation provision at end of period	**600,000**	**470,000**	**130,000**

Depreciations provision for fixed assets (B/S)	130,000
Depreciation charge (P&L)	30,000
Retained earnings (B/S)	100,000

➢ *For the purposes of simplification, we have ignored the impact of deferred taxes in the above example.*

Example 4:

Excerpt from group L's financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 12/31/N (in €K)

NON-CURRENT ASSETS	**1,850**	**EQUITY**	**2,308**
Equipment	1,000	Share capital	500
Vehicles	500	Consolidated reserves,	
L's share	1,381		
Goodwill	350	Consolidated profit,	
L's share	243		
		Equity share of L	2,124
		Non-controlling interests	184
		NON-CURRENT LIABILITIES	**300**
		Long-term debts	300
CURRENT ASSETS	**1,390**		
Inventories	245	**CURRENT LIABILITIES**	**632**
Trade receivables	940	Trade and other payables	298
Other receivables	40	Short-term debt	100
Current tax assets	10	Other current liabilities	98
Deferred tax assets	30	Current tax liabilities	106
Cash and cash equivalents	125	Deferred tax liabilities	30
TOTAL	**3,240**	**TOTAL**	**3,240**

EXCERPT FROM THE CONSOLIDATED PROFIT AND LOSS STATEMENT AS OF 12/31/N (in €K)

Consolidated profit after tax, L's share	243
Non-controlling interests (in profit)	30
Total consolidated profit	**273**

➢ *For reasons of clarity, we have not shown the comparative information, but disclosure of comparatives is mandatory.*

Example 5: In N–1, company X acquires 40% of the shares of company Y (amounting to 2,000 shares) at a cost of 150,000. Acquisition costs amounted to 3,500. On 31 December N, Y's net book assets amounted to 500,000, and its average listed share price at the balance sheet date was 80.

In X's separate financial statements, if the investment in Y is accounted for at cost it would be included in X's balance sheet at 153,500.

If the investment in Y is accounted for at fair value, the listed share price would be the best way of determining fair value, provided the market in the shares is genuinely active and liquid.

Initially the investment would be recorded at cost of 153,500. Subsequently Y's shares should be included in X's balance sheet at 31 December N at an amount of 160,000 (2,000 shares priced at 80). Under IFRS 9, the investment would usually be classified as an available-for-sale-financial asset and the increase in value of 6,500 presented in other comprehensive income, and recorded in the statement of financial position (balance sheet) in a separate component of equity.

When control over a subsidiary is lost, the parent company removes the former subsidiary's assets and liabilities from the consolidated statement of financial position; any equity investment remaining after the loss of control will be recognized at its fair value on the date when control is lost.