ASPE At a Glance

Section 1601 – Consolidated Financial Statement & Section 1602 – Non-controlling Interests

December 2014

Section 1601 – *Consolidated Financial Statements* & Section 1602 – *Non-controlling Interests*

Effective Date
Fiscal years beginning on or after January 1, 2011[1]

Scope

Section 1601 applies to:

- Consolidation accounting following a business combination that involves a purchase of an equity interest by one company in another.
- The guidance in this Section can also be used in situations involving a combination or consolidation other than through purchase of an equity interest or involving unincorporated businesses.

Section 1602 sets out:

- Standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

Consolidated Financial Statements

- Combine the financial statements of the parent and one or more subsidiaries line by line by adding together similar items of assets, liabilities, revenue and expenses.
- Eliminate intercompany balances and transactions.
- Provide for any non-controlling interest in subsidiaries.

Combined Financial Statements

- Do not include the financial statements of the parent company.
- Use similar principles to those used in preparing consolidated financial statements.
- May be useful in certain circumstances, such as:
  - When one individual owns a controlling interest in several corporations;
  - To present the financial position and results of operations of a group of subsidiaries; or
  - To combine the financial statements of companies under common management.

Preparation of Consolidated Financial Statements

At the Date of Acquisition

- The investment account of the parent company is eliminated and replaced by the identifiable assets and liabilities of the subsidiary, any non-controlling interest therein, and any goodwill arising as a result of the investment.
- Intercompany balances are eliminated.
- The retained earnings or deficit accumulated by the subsidiary prior to the date of acquisition is not included in consolidated retained earnings.
- Gains and losses included in the carrying amount of the parent or subsidiary from intercompany transactions that took place prior to the date of acquisition are not eliminated from the consolidated financial statements, unless the transactions were made in contemplation of acquisition.

At Dates Subsequent to Acquisition

- Consolidated financial statements prepared at dates subsequent to acquisition are prepared based on amounts assigned to assets, liabilities and non-controlling interest at the acquisition date. These amounts are then adjusted to include the effects of transactions subsequent to the acquisition date.
- Unrealized intercompany gains or losses arising subsequent to the date of acquisition on assets remaining within the consolidated group must be eliminated. The amount of elimination from assets is not affected by the existence of a non-controlling interest.
- The depreciation and amortization of the assets of the subsidiary is calculated based on the amounts determined for these assets at the date of acquisition.
- Intercompany balances and post-acquisition transactions are eliminated.
- Guidance on accounting for shareholders' equity transactions with interests outside the consolidated group as described in paragraphs 1601.25-.30 is provided in Section 1602, *Non-controlling Interests*.

Other

- If a difference arises from the elimination of reciprocal shareholdings among companies in the consolidated group, it is allocated to parent and non-controlling interests on the basis of their proportionate shareholdings.

Non-Controlling Interests

- When preparing consolidated financial statements, an entity identifies:
  - Non-controlling interests in the net income of consolidated subsidiaries for the reporting period; and
  - Non-controlling interests in the net assets of consolidated subsidiaries separately from the parent's ownership interests in them.
    - Non-controlling interests in the net assets consist of:
      - The amount of those non-controlling interests at the date of the original combination calculated in accordance with Section 1582, *Business Combinations*; and
      - The non-controlling interests share of changes in equity since the date of the combination.

[1] Except as specified in paragraphs 1601.41 and 1602.16.

Changes in Ownership Interest in a Consolidated Subsidiary

- When changes in a parent's ownership interest in a consolidated subsidiary do not result in a loss of control, they are accounted for as equity transactions.

Loss of Control of a Consolidated Subsidiary

- If a parent loses control of a consolidated subsidiary, it must:
  - Derecognize the assets, including any goodwill, and liabilities of the subsidiary at their carrying amounts at the date when control is lost;
  - Derecognize the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of equity attributable to them);
  - Recognize:
    - The fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control; and
    - If the transaction that resulted in the loss of control involves a distribution of shares of the subsidiary to owners in their capacity as owners, that distribution;
  - Recognize any investment retained in the former subsidiary at its carrying amount at the date when control is lost; and
  - Recognize any resulting difference as a gain or loss in net income attributable to the parent.
- Any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary must be accounted for in accordance with other Sections from the date when control is lost.

Presentation

- If an entity consolidates its subsidiaries, non-controlling interests are presented within equity in the consolidated Statement of Financial Position, separate from the equity of the owners of the parent.

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