

# IPSAS 6

## Consolidated Financial Statements and Accounting for Controlled Entities

### *Acknowledgment*

This International Public Sector Accounting Standard is drawn primarily from International Accounting Standard IAS 27 (reformatted 1994), *Consolidated Financial Statements and Accounting for Controlled Entities* published by the International Accounting Standards Committee (IASC). The International Accounting Standards Board (IASB) and the International Accounting Standards Committee Foundation (IASCF) were established in 2001 to replace the IASC. The International Accounting Standards (IASs) issued by the IASC remain in force until they are amended or withdrawn by the IASB. Extracts from IAS 27 are reproduced in this publication of the Public Sector Committee of the International Federation of Accountants with the permission of IASB.

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# IPSAS 6

May 2000

## Consolidated Financial Statements and Accounting for Controlled Entities

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## INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS 6

### CONSOLIDATED FINANCIAL STATEMENTS AND ACCOUNTING FOR CONTROLLED ENTITIES

*The standards, which have been set in bold italic type, should be read in the context of the commentary paragraphs in this Standard, which are in plain type, and in the context of the “Preface to International Public Sector Accounting Standards.” International Public Sector Accounting Standards are not intended to apply to immaterial items.*

#### SCOPE

1. ***An entity which prepares and presents financial statements under the accrual basis of accounting should apply this Standard in the preparation and presentation of consolidated financial statements for an economic entity.***
2. ***This Standard should also be applied in accounting for controlled entities in a controlling entity’s separate financial statements.***
3. Consolidated financial statements are encompassed by the term “financial statements” included in the *Preface to International Public Sector Accounting Standards*. Therefore, consolidated financial statements are prepared in accordance with International Public Sector Accounting Standards.
4. ***This Standard applies to the preparation and presentation of consolidated financial statements, and accounting for controlled entities, by all public sector entities other than Government Business Enterprises.***
5. Government Business Enterprises (GBEs) are required to comply with International Accounting Standards (IASs) issued by the International Accounting Standards Committee. The Public Sector Committee’s Guideline No. 1 *Financial Reporting by Government Business Enterprises* notes that IASs are relevant to all business enterprises, regardless of whether they are in the private or public sector. Accordingly, Guideline No. 1 recommends that GBEs should present financial statements that conform, in all material respects, to IASs.
6. This Standard establishes requirements for the preparation and presentation of consolidated financial statements, and for accounting for controlled entities in the separate financial statements of the controlling entity. Although GBEs are not required to comply with this Standard in their own financial statements, the provisions of this Standard will apply where a public sector entity that is not a GBE has one or more controlled entities that are GBEs. In these circumstances, this Standard should be applied in consolidating GBEs into the financial statements of the economic entity, and in accounting for investments in GBEs in the controlling entity’s separate financial statements.

7. This Standard does not deal with:
- (a) methods of accounting for entity combinations and their effects on consolidation, including goodwill arising on a entity combination (guidance on accounting for entity combinations can be found in International Accounting Standard IAS 22, *Business Combinations*);
  - (b) accounting for investments in associates (see International Public Sector Accounting Standard IPSAS 7 *Accounting for Investments in Associates*); and
  - (c) accounting for investments in joint ventures (see International Public Sector Accounting Standard IPSAS 8 *Financial Reporting of Interests in Joint Ventures*).

## DEFINITIONS

8. *The following terms are used in this Standard with the meanings specified:*

*Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.*

*Accrual basis means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.*

*Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.*

*Associate is an entity in which the investor has significant influence and which is neither a controlled entity nor a joint venture of the investor.*

*Cash comprises cash on hand and demand deposits.*

*Consolidated financial statements are the financial statements of an economic entity presented as those of a single entity.*

*Contributions from owners means future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which:*

- (a) *conveys entitlement both to distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or*

*(b) can be sold, exchanged, transferred or redeemed.*

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

**Controlled entity** is an entity that is under the control of another entity (known as the controlling entity).

**Controlling entity** is an entity that has one or more controlled entities.

**Distributions to owners** means future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment.

**Economic entity** means a group of entities comprising a controlling entity and one or more controlled entities.

**Equity method** is a method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets/equity of the investee. The statement of financial performance reflects the investor's share of the results of operations of the investee.

**Expenses** are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.

**Government Business Enterprise** means an entity that has all the following characteristics:

- (a) is an entity with the power to contract in its own name;*
- (b) has been assigned the financial and operational authority to carry on a business;*
- (c) sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;*
- (d) is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and*
- (e) is controlled by a public sector entity.*

**Investor in a joint venture** is a party to a joint venture and does not have joint control over that joint venture.

**Joint control** is the agreed sharing of control over an activity by a binding arrangement.

**Joint venture** is a binding arrangement whereby two or more parties are committed to undertake an activity which is subject to joint control.

**Liabilities** are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

***Minority interest*** is that part of the net surplus (deficit) and of net assets/equity of a controlled entity attributable to interests which are not owned, directly or indirectly through controlled entities, by the controlling entity.

***Net assets/equity*** is the residual interest in the assets of the entity after deducting all its liabilities.

***Net surplus/deficit*** comprises the following components:

- (a) surplus or deficit from ordinary activities; and
- (b) extraordinary items.

***Reporting date*** means the date of the last day of the reporting period to which the financial statements relate.

***Revenue*** is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

***Significant influence*** (for the purpose of this Standard) is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies.

### **Economic Entity**

- 9. The term “economic entity” is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities.
- 10. Other terms sometimes used to refer to an economic entity include “administrative entity,” “financial entity,” “consolidated entity” and “group.”
- 11. An economic entity may include entities with both social policy and commercial objectives. For example, a government housing department may be an economic entity which includes entities that provide housing for a nominal charge, as well as entities that provide accommodation on a commercial basis.

### **Future Economic Benefits or Service Potential**

- 12. Assets provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity’s objectives but which do not directly generate net cash inflows are often described as embodying “service potential.” Assets that are used to generate net cash inflows are often described as embodying “future economic benefits.” To encompass all the purposes to which assets may be put, this Standard uses the term “future economic benefits or service potential” to describe the essential characteristic of assets.

**Government Business Enterprises**

13. Government Business Enterprises (GBEs) include both trading enterprises, such as utilities, and financial enterprises, such as financial institutions. GBEs are, in substance, no different from entities conducting similar activities in the private sector. GBEs generally operate to make a profit, although some may have limited community service obligations under which they are required to provide some individuals and organizations in the community with goods and services at either no charge or a significantly reduced charge. This Standard provides guidance on determining whether control exists for financial reporting purposes, and should be referred to in determining whether a GBE is controlled by another public sector entity.

**Net Assets/Equity**

14. “Net assets/equity” is the term used in this Standard to refer to the residual measure in the statement of financial position (assets less liabilities). Net assets/equity may be positive or negative. Other terms may be used in place of net assets/equity, provided that their meaning is clear.

**PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS**

15. *A controlling entity, other than a controlling entity mentioned in paragraph 16, should present consolidated financial statements.*
16. *A controlling entity that is a wholly owned controlled entity, or is virtually wholly owned, need not present consolidated financial statements provided users of such financial statements are unlikely to exist or their information needs are met by the controlling entity’s consolidated financial statements; or, in the case of one that is virtually wholly owned, the controlling entity obtains the approval of the owners of the minority interest. Such a controlling entity should disclose the reasons why consolidated financial statements have not been presented together with the bases on which controlled entities are accounted for in its separate financial statements. The name and the principal address of its controlling entity that publishes consolidated financial statements should also be disclosed.*
17. Users of the financial statements of a controlling entity are usually concerned with, and need to be informed about, the financial affairs of the economic entity as a whole. This need may be served by consolidated financial statements, which present financial information about the economic entity as a single entity without regard for the legal boundaries of the separate legal entities.
18. A controlling entity that is itself wholly owned by another entity may not always present consolidated financial statements since such statements may not be required by its controlling entity and the needs of other users may be best served by the consolidated financial statements of its controlling entity. However, in the public sector many controlling entities that are either wholly owned or virtually wholly owned, represent key sectors or activities of a

government and the purpose of this Standard is not to exempt such entities from preparing consolidated financial statements. In this situation the information needs of certain users may not be served by the consolidated financial statements at a whole-of-government level alone. In many jurisdictions governments have recognized this and have legislated the financial reporting requirements of such entities.

19. In some countries, a controlling entity is also exempted from presenting consolidated financial statements if it is virtually wholly owned by another entity and the controlling entity obtains the approval of the owners of the minority interest. Virtually wholly owned is often taken to mean that the controlling entity owns 90% or more of the voting power.
20. In some instances, an economic entity will include a number of intermediate controlling entities. For example, whilst a department of health may be the ultimate controlling entity, there may be intermediate controlling entities at the local or regional health authority level. Accountability and reporting requirements in each jurisdiction may specify which entities are required to (or exempted from the requirement to) prepare consolidated financial statements. Where there is no specific reporting requirement for an intermediate controlling entity to prepare consolidated financial statements for which users are likely to exist, intermediate controlling entities are to prepare and publish consolidated financial statements.

## SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

21. *A controlling entity which issues consolidated financial statements should consolidate all controlled entities, foreign and domestic, other than those referred to in paragraph 22.*
22. *A controlled entity should be excluded from consolidation when:*
  - (a) *control is intended to be temporary because the controlled entity is acquired and held exclusively with a view to its subsequent disposal in the near future; or*
  - (b) *it operates under severe external long-term restrictions which prevent the controlling entity from benefiting from its activities.*
23. Such controlled entities should be accounted for as if they are investments. International Accounting Standard IAS 39, *Financial Instruments: Recognition and Measurement* provides guidance on accounting for investments.
24. An example of temporary control is where a controlled entity is acquired with a firm plan to dispose of it in the short term. This may occur where an economic entity is acquired and an entity within it is to be disposed of because its activities are dissimilar to those of the acquirer. Temporary control also occurs where the controlling entity intends to cede control over a controlled entity to another entity — for example a national government may transfer its interest in a controlled entity to a local government. For this exemption to apply, the controlling entity must be demonstrably committed to a formal plan to dispose of, or no longer control, the entity that is subject

to temporary control. For the exemption to apply at more than one successive reporting date, the controlling entity must demonstrate an ongoing intent to dispose of, or no longer control, the entity that is subject to temporary control. An entity is demonstrably committed to dispose of, or no longer control, another entity when it has a formal plan to do so and there is no realistic possibility of withdrawal from that plan.

25. An entity may be subject to severe restrictions that prevent the other entity from benefiting from its activities. For example, a foreign government may sequester the operating assets of a foreign controlled entity. Under these circumstances, control is unlikely to exist and the consolidation procedures in this Standard would no longer apply.

### **Establishing Control of Another Entity for Financial Reporting Purposes**

26. Whether an entity controls another entity for financial reporting purposes is a matter of judgment based on the definition of control in this Standard and the particular circumstances of each case. That is, consideration needs to be given to the nature of the relationship between the two entities. In particular, the two elements of the definition of control in this Standard need to be considered. These are the power element (the power to govern the financial and operating policies of another entity) and the benefit element (which represents the ability of the controlling entity to benefit from the activities of the other entity).
27. For the purposes of establishing control, the controlling entity needs to benefit from the activities of the other entity. For example, an entity may benefit from the activities of another entity in terms of a distribution of its surpluses (such as a dividend) and is exposed to the risk of a potential loss. In other cases, an entity may not obtain any financial benefits from the other entity but may benefit from its ability to direct the other entity to work with it to achieve its objectives. It may also be possible for an entity to derive both financial and non-financial benefits from the activities of another entity. For example, a GBE may provide a controlling entity with a dividend and also enable it to achieve some of its social policy objectives.

### **Control for Financial Reporting Purposes**

28. For the purposes of financial reporting, control stems from an entity's power to govern the financial and operating policies of another entity and does not necessarily require an entity to hold a majority shareholding or other equity interest in the other entity. The power to control must be presently exercisable. That is, the entity must already have had this power conferred upon it by legislation or some formal agreement. The power to control is not presently exercisable if it requires changing legislation or renegotiating agreements in order to be effective. This should be distinguished from the fact that the existence of the power to control another entity is not dependent upon the probability or likelihood of that power being exercised.

29. Similarly, the existence of control does not require an entity to have responsibility for the management of (or involvement in) the day-to-day operations of the other entity. In many cases, an entity may only exercise its power to control another entity where there is a breach or revocation of an agreement between the controlled entity and its controlling entity.
30. For example, a government department may have an ownership interest in a rail authority, which operates as a GBE. The rail authority is allowed to operate autonomously and does not rely on the government for funding but has raised capital through significant borrowings that are guaranteed by the government. The rail authority has not returned a dividend to government for several years. The government has the power to appoint and remove a majority of the members of the governing body of the rail authority. The government has never exercised the power to remove members of the governing body and would be reluctant to do so because of sensitivity in the electorate regarding the previous government's involvement in the operation of the rail network. In this case, the power to control is presently exercisable but under the existing relationship between the controlled entity and controlling entity, an event has not occurred to warrant the controlling entity exercising its powers over the controlled entity. Accordingly, control exists because the power to control is sufficient even though the controlling entity may choose not to exercise that power.
31. The existence of separate legislative powers does not, of itself, preclude an entity from being controlled by another entity. For example, the Office of the Government Statistician usually has statutory powers to operate independently of the government. That is, the Office of the Government Statistician may have the power to obtain information and report on its findings without recourse to government or any other body. The existence of control does not require an entity to have responsibility over the day-to-day operations of another entity or the manner in which professional functions are performed by the entity.
32. The power of one entity to govern decision-making in relation to the financial and operating policies of another entity is insufficient, in itself, to ensure the existence of control as defined in this Standard. The controlling entity needs to be able to govern decision-making so as to be able to benefit from its activities, for example by enabling the other entity to operate with it as part of an economic entity in pursuing its objectives. This will have the effect of excluding from the definitions of a "controlling entity" and "controlled entity" relationships which do not extend beyond, for instance, that of a liquidator and the entity being liquidated, and would normally exclude a lender and borrower relationship. Similarly, a trustee whose relationship with a trust does not extend beyond the normal responsibilities of a trustee would not be considered to control the trust for the purposes of this Standard.

### **Regulatory and Purchase Power**

33. Governments and their agencies have the power to regulate the behavior of many entities by use of their sovereign or legislative powers. Regulatory and

purchase powers do not constitute control for the purposes of financial reporting. To ensure that the financial statements of public sector entities include only those resources that they control and can benefit from, the meaning of control for the purposes of this Standard does not extend to:

- (a) the power of the legislature to establish the regulatory framework within which entities operate and to impose conditions or sanctions on their operations. Such power does not constitute control by a public sector entity of the assets deployed by these entities. For example, a pollution control authority may have the power to close down the operations of entities that are not complying with environmental regulations. However, this power does not constitute control because the pollution control authority only has the power to regulate; or
- (b) entities that are economically dependent on a public sector entity. That is, where an entity retains discretion as to whether it will take funding from, or do business with, a public sector entity, that entity has the ultimate power to govern its own financial or operating policies, and accordingly is not controlled by the public sector entity. For example, a government department may be able to influence the financial and operating policies of an entity which is dependent on it for funding (such as a charity) or a profit-orientated entity that is economically dependent on business from it. Accordingly, the government department has some power as a purchaser but not to govern the entity's financial and operating policies.

#### **Determining Whether Control Exists for Financial Reporting Purposes**

- 34. Public sector entities may create other entities to achieve some of their objectives. In some cases it may be clear that an entity is controlled, and hence should be consolidated. In other cases it may not be clear. Paragraphs 35 and 36 provide guidance to help determine whether or not control exists for financial reporting purposes.
- 35. In examining the relationship between two entities, control is presumed to exist when at least one of the following power conditions and one of the following benefit conditions exists, unless there is clear evidence of control being held by another entity.

##### *Power conditions*

- (a) The entity has, directly or indirectly through controlled entities, ownership of a majority voting interest in the other entity.
- (b) The entity has the power, either granted by or exercised within existing legislation, to appoint or remove a majority of the members of the governing body of the other entity.
- (c) The entity has the power to cast, or regulate the casting of, a majority of the votes that are likely to be cast at a general meeting of the other entity.

- (d) The entity has the power to cast the majority of votes at meetings of the board of directors or equivalent governing body.

*Benefit conditions*

- (a) The entity has the power to dissolve the other entity and obtain a significant level of the residual economic benefits or bear significant obligations. For example the benefit condition may be met if an entity had responsibility for the residual liabilities of another entity.
  - (b) The entity has the power to extract distributions of assets from the other entity, and/or may be liable for certain obligations of the other entity.
36. When one or more of the circumstances listed in paragraph 35 does not exist, the following factors are likely, either individually or collectively, to be indicative of the existence of control.

*Power indicators*

- (a) The entity has the ability to veto operating and capital budgets of the other entity.
- (b) The entity has the ability to veto, overrule, or modify governing body decisions of the other entity.
- (c) The entity has the ability to approve the hiring, reassignment and removal of key personnel of the other entity.
- (d) The mandate of the other entity is established and limited by, legislation.
- (e) The entity holds a “golden share”<sup>1</sup> (or equivalent) in the other entity that confers rights to govern the financial and operating policies of that other entity.

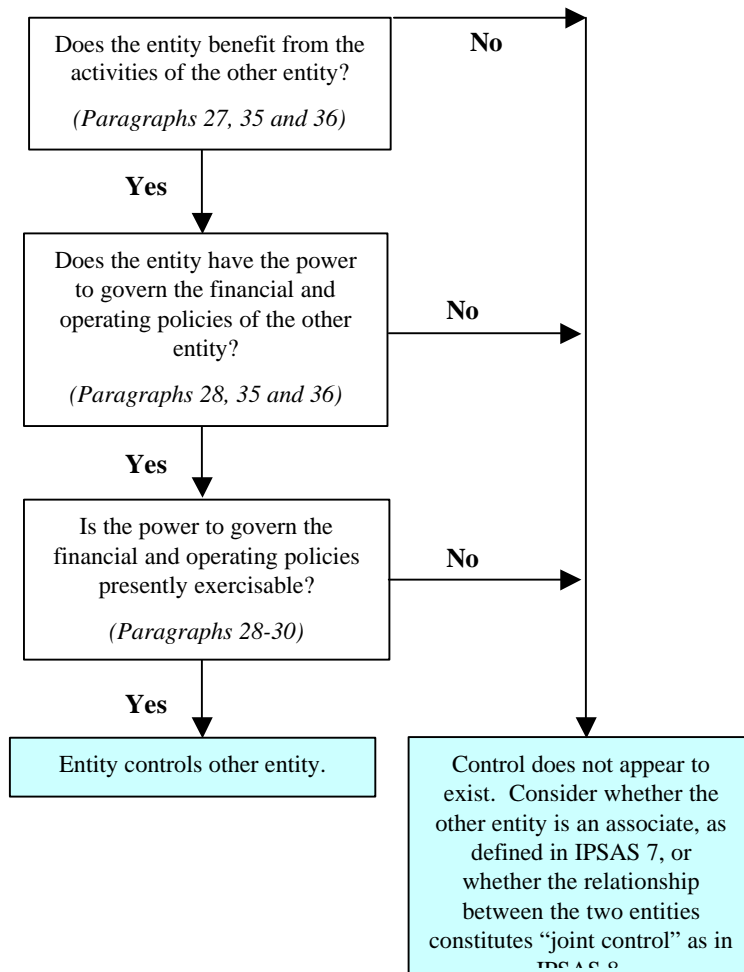
*Benefit indicators*

- (a) The entity holds direct or indirect title to the net assets/equity of the other entity with an ongoing right to access these.
- (b) The entity has a right to a significant level of the net assets/equity of the other entity in the event of a liquidation or in a distribution other than a liquidation.
- (c) The entity is able to direct the other entity to co-operate with it in achieving its objectives.
- (d) The entity is exposed to the residual liabilities of the other entity.

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<sup>1</sup> “Golden share” refers to a class of share that entitles the holder to specified powers or rights generally exceeding those normally associated with the holder’s ownership interest or representation on the governing body.

37. The following diagram indicates the basic steps involved in establishing control of another entity. It should be read in conjunction with **Establishing Control of another Entity for Financial Reporting Purposes**



38. Sometimes a controlled entity is excluded from consolidation when its activities are dissimilar to those of other entities within the economic entity, for example, the consolidation of GBEs with entities in the budget sector. Exclusion on these grounds is not justified because better information would be provided by consolidating such controlled entities and disclosing additional information in the consolidated financial statements about the different activities of controlled entities. For example, disaggregated disclosures can help to explain the significance of different activities within the economic entity.

### CONSOLIDATION PROCEDURES

39. In preparing consolidated financial statements, the financial statements of the controlling entity and its controlled entities are combined on a line-by-line basis by adding together like items of assets, liabilities, net assets/equity, revenue and expenses. In order that the consolidated financial statements present financial information about the economic entity as that of a single entity, the following steps are then taken:
- (a) the carrying amount of the controlling entity's investment in each controlled entity and the controlling entity's portion of net assets/equity of each controlled entity are eliminated (IAS 22 provides guidance on the treatment of any resultant goodwill);
  - (b) minority interests in the net surplus or deficit of consolidated controlled entities for the reporting period are identified and adjusted against the net surplus or deficit of the economic entity in order to arrive at the net surplus or deficit attributable to the owners of the controlling entity; and
  - (c) minority interests in the net assets/equity of consolidated controlled entities are identified and presented in the consolidated statement of financial position separately from liabilities and the controlling entity's net assets/equity. Minority interests in the net assets/equity consist of:
    - (i) the amount at the date of the original combination (IAS 22 provides guidance on calculating this amount); and
    - (ii) the minority's share of movements in net assets/equity since the date of combination.
40. Guidance on accounting for taxes payable by either the controlling entity or its controlled entities on distribution to the controlling entity of the surpluses retained in controlled entities can be found in International Accounting Standard IAS 12, *Income Taxes*.
41. ***Balances and transactions between entities within the economic entity and resulting unrealized gains should be eliminated in full. Unrealized losses resulting from transactions within the economic entity should also be eliminated unless cost cannot be recovered.***
42. Balances and transactions between entities within the economic entity, including sales, transfers and revenues recognized consequent to an

appropriation or other budgetary authority, expenses and dividends, are eliminated in full. Unrealized surpluses resulting from transactions within the economic entity that are included in the carrying amount of assets, such as inventory and fixed assets, are eliminated in full. Unrealized deficits resulting from transactions within the economic entity that are deducted in arriving at the carrying amount of assets are also eliminated unless cost cannot be recovered. Guidance on accounting for timing differences that arise from the elimination of unrealized surpluses and deficits resulting from transactions within the economic entity, can be found in IAS 12.

43. ***When the financial statements used in the consolidation are drawn up to different reporting dates, adjustments should be made for the effects of significant transactions or other events that occur between those dates and the date of the controlling entity's financial statements. In any case the difference between reporting dates should be no more than three months.***
44. The financial statements of the controlling entity and its controlled entities used in the preparation of the consolidated financial statements are usually drawn up to the same date. When the reporting dates are different, the controlled entity often prepares, for consolidation purposes, statements as at the same date as the economic entity. When it is impracticable to do this, financial statements drawn up to different reporting dates may be used provided the difference is no greater than three months. The consistency principle dictates that the length of the reporting periods and any difference in the reporting dates should be the same from period to period.
45. ***Consolidated financial statements should be prepared using uniform accounting policies for like transactions and other events in similar circumstances. If it is not practicable to use uniform accounting policies (other than the bases of accounting) in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.***
46. If a member of the economic entity 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 when they are used in preparing the consolidated financial statements.
47. The net surplus or deficit of a controlled entity is included in the consolidated financial statements as from the date on which control becomes effective. The surplus or deficit from operating activities of a controlled entity disposed of is included in the consolidated statement of financial performance until the date of disposal, which is the date on which the controlling entity ceases to have control of the controlled entity. The difference between the proceeds from the disposal of the controlled entity and the carrying amount of its assets less liabilities as of the date of disposal is recognized in the consolidated statement of financial performance as the net surplus or deficit on the disposal of the controlled entity. In order to ensure the comparability of the financial statements from one accounting period to the next, supplementary information is often provided about the

effect of the acquisition and disposal of controlled entities on the financial position at the reporting date and the results for the reporting period and on the corresponding amounts for the preceding period.

48. From the date an entity ceases to fall within the definition of a controlled entity and does not become an associate as defined in IPSAS 7, or a jointly controlled entity as defined in IPSAS 8, it should be accounted for as an investment. IAS 39 provides guidance on accounting for investments.
49. The carrying amount of the investment at the date that it ceases to be a controlled entity is regarded as cost thereafter.
50. ***Minority interests should be presented in the consolidated statement of financial position separately from liabilities and the controlling entity's net assets/equity. Minority interests in the net surplus or deficit of the economic entity should also be separately presented.***
51. The losses applicable to the minority in a consolidated controlled entity may exceed the minority interest in the net assets/equity of the controlled entity. The excess, and any further losses applicable to the minority, are charged against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the controlled entity subsequently reports surpluses, the majority interest is allocated all such surpluses until the minority's share of losses previously absorbed by the majority has been recovered.
52. If a controlled entity has outstanding cumulative preferred shares which are held outside the economic entity, the controlling entity computes its share of surpluses and losses after adjusting for the controlled entity's preferred dividends, whether or not dividends have been declared.

#### **ACCOUNTING FOR CONTROLLED ENTITIES IN A CONTROLLING ENTITY'S SEPARATE FINANCIAL STATEMENTS**

53. ***In a controlling entity's separate financial statements, controlled entities that are included in the consolidated financial statements should be either:***
  - (a) *accounted for using the equity method as described in IPSAS 7 or*
  - (b) *accounted for as an investment .*
54. ***Controlled entities that are excluded from consolidation should be accounted for as investments in the controlling entity's separate financial statements.***
55. Guidance on accounting for investments can be found in international and/or national accounting standards.
56. In many countries separate financial statements are presented by a controlling entity in order to meet legal or other requirements.

**DISCLOSURE**

57. *In addition to those disclosures required by paragraph 16, the following disclosures should be made:*
- (a) *in consolidated financial statements, a list of significant controlled entities including the name, the jurisdiction in which it operates (when it is different from that of the controlling entity), proportion of ownership interest and, where that interest is in the form of shares, the proportion of voting power held (only where this is different from the proportionate ownership interest);*
  - (b) *in consolidated financial statements, where applicable:*
    - (i) *the reasons for not consolidating a controlled entity;*
    - (ii) *the name of any controlled entity in which the controlling entity holds an ownership interest and/or voting rights of 50%, together with an explanation of how control exists;*
    - (iii) *the name of any entity in which an ownership interest of more than 50% is held but which is not a controlled entity, together with an explanation of why control does not exist; and*
    - (iv) *the effect of the acquisition and disposal of controlled entities on the financial position at the reporting date, the results for the reporting period and on the corresponding amounts for the preceding period; and*
  - (c) *in the controlling entity's separate financial statements, a description of the method used to account for controlled entities.*

**TRANSITIONAL PROVISIONS**

58. *Entities are not required to comply with the requirement in paragraph 41 concerning the elimination of balances and transactions between entities within the economic entity for reporting periods beginning on a date within three years following the date of first adoption of this Standard.*
59. Controlling entities that adopt this Standard may have many controlled entities with significant number of transactions between these entities. Accordingly, it may be difficult to identify some transactions and balances that need to be eliminated for the purpose of preparing the consolidated financial statements of the economic entity. For this reason, paragraph 58 provides relief from the requirement to eliminate balances and transactions between entities within the economic entity in full.
60. *Where entities apply the transitional provision in paragraph 58, they should disclose the fact that not all balances and transactions occurring between entities within the economic entity have been eliminated.*

**EFFECTIVE DATE**

- 61. *This International Public Sector Accounting Standard becomes effective for annual financial statements covering periods beginning on or after 1 July 2001. Earlier application is encouraged.***
62. When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

### COMPARISON WITH IAS 27

International Public Sector Accounting Standard IPSAS 6 *Consolidated Financial Statements and Accounting for Controlled Entities* is drawn primarily from International Accounting Standard IAS 27, *Consolidated Financial Statements and Accounting for Investments in Subsidiaries*. The main differences between IPSAS 6 and IAS 27 are as follows:

- Commentary additional to that in IAS 27 has been included in IPSAS 6 to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 6 uses different terminology, in certain instances, from IAS 27. The most significant examples are the use of the terms “entity,” “revenue,” “statement of financial performance,” “statement of financial position,” “net assets/equity,” “controlling entity” and “controlled entity” in IPSAS 6. The equivalent terms in IAS 27 are “enterprise,” “income,” “income statement,” “balance sheet,” “equity,” “parent” and “subsidiary.”
- IPSAS 6 contains a different set of definitions of technical terms from IAS 27 (paragraph 8).
- IPSAS 6 includes a transitional provision that permits entities to not eliminate all balances and transactions between entities within the economic entity for reporting periods beginning on a date within three years following the date of first adoption of this Standard.