national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

GRAP 35 – Consolidated Financial Statements

Effective 1 April 2021

Consolidated financial statements include all controlled entities of the controlling entity, i.e. those entities controlled by the controlling entity

EXEMPTION FROM PRESENTAITON OF CONSOLIDATED FINANCIAL STATEMENTS

- ✓ The controlling entity is itself a controlled entity and the information needs of users are met by its controlling entity's consolidated financial statements, and, in the case of a partially owned controlled entity, all of its other owners have been informed about, and do not object to, the entity not presenting consolidated financial statements;
- ✓ The controlling entity's debt or equity instruments are not traded in a public market;
- ✓ The controlling entity 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
- ✓ The controlling entity's ultimate or any intermediate controlling entity produces financial statements that are available for public use and comply with the Standards of GRAP, in which controlled entities are consolidated or measured at fair value.

The controlling entity presents:
- Non-controlling interests in the consolidated statement of financial position within net assets, separately from net assets of the owners of the controlling entity
- Surplus or deficit attributable to owners and non-controlling interests
- Gains or losses recognised directly in net assets attributed to owners and non-controlling interests

DEFINITION

Consolidated financial statements are the financial statements of an economic entity in which the assets the assets, liabilities, net assets, revenue, expenses and cash flows of the controlling entity and its controlled entities are presented as those of a single economic entity.

CONSOLIDATION PROCEDURES

a) Combine like items of assets, liabilities, net assets, revenue, expenses and cash flows
b) Offset (eliminate) the carrying amount of the controlling entity's investment in each controlled entity and the controlling entity's portion of net assets of each controlled entity
c) Eliminate in full intra-economic entity assets, liabilities, net assets, revenue, expenses and cash flows relating to transactions between entities of the economic entity (surpluses or deficits resulting from intra-economic entity transactions that are recognised in assets are eliminated in full)

ISSUES

- An entity considers only substantive rights relating to another entity, i.e. the holder must have the practical ability to exercise that right
- Economic dependence, alone, does not give rise to power over an entity
- Potential voting rights are considered only if the rights are substantive
- The existence of statutory powers to operate independently does not, of itself, preclude an entity having the ability to direct the operating and financial policies of another entity with statutory powers so as to obtain benefits
- Regulatory control does not usually give rise to power over an entity
- Use uniform accounting policies for like transactions, balances and other events in similar circumstances
- Financial statements should be prepared for the same reporting date

DEFINITION

Control: An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.

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Control for financial reporting purposes is a matter of judgment based on the definition of control and the facts and circumstances of each case. All three elements of the definition need to be considered:
a) <u>power</u> over the entity → when it has existing rights that give it the current ability to direct the activities that significantly affect the nature or amount of the benefits from its involvement with the other entity
b) exposure, or rights, to variable <u>benefits</u> from its involvement with the other entity →when the benefits that it seeks from its involvement have the potential to vary as a result of the other entity's performance AND
c) the <u>ability to use</u> its power over the other entity to affect the nature or amount of benefits from its involvement with the other entity

LOSS OF CONTROL

A controlling entity can lose control through a sale or distribution, or through some other transaction or event
- When control is lost, the controlling entity derecognises all assets, liabilities and non-controlling interests at their carrying amounts
- Any investment retained in the former controlled entity is recognised at fair value
- The controlled entity recognise any consideration received at its fair value and recognises any distribution of shares of the controlled entity to owners in their capacity as owners
- The controlling entity recognises any gain or loss associated with the loss of control attributable to the former controlling interest

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RELEVANT ACTIVITIES

Relevant activities include (but are not limited to):
- ✓ Using assets and incurring liabilities to provide services to service recipients
- ✓ Distributing funds to specified individuals or groups
- ✓ Collecting revenue through non-exchange transactions
- ✓ Selling and purchasing of goods or services
- ✓ Managing physical assets
- ✓ Managing financial assets during their life (including upon default)
- ✓ Selecting, acquiring or disposing of assets
- ✓ Managing a portfolio of liabilities
- ✓ Researching and developing new services or processes
- ✓ Determining a funding structure or obtaining funding

Decisions on relevant activities include but are not limited to:
- ✓ Establishing operating and capital decisions of an entity, including budgets
- ✓ Appointing and remunerating an entity's key management personnel or service providers and terminating their services of employment

EXPOSURE, OR RIGHTS, TO VARIABLE RETURNS (returns that are not fixed, and vary as a result of involvement)

Based on substance of the arrangement assess whether returns are variable, how variable they are. Variable returns can be: only positive, only negative, or both positive and negative.

RIGHTS TO DIRECT RELEVANT ACTIVITIES

Rights that, either individually or in combination, can given an investor **power** include (but are not limited to):
- ✓ Rights to give policy direction to board of directors or equivalent governing body of another entity that give the holder the ability to direct the relevant activities of the other entity
- ✓ Rights in the form of voting rights (or potential voting rights) of another entity
- ✓ Rights to appoint, reassign or remove members of another entity's key management personnel or another entity who have the ability to direct the relevant activities
- ✓ Rights to approve or veto operating and capital budgets relating to the relevant activities of another entity
- ✓ Rights to direct the other entity to enter into, or veto any changes to, transactions for the benefit of the entity
- ✓ Rights to veto key changes to the other entity, such as the sale of a major asset or the other entity as a whole
- ✓ Other rights (such as decision making rights specified in a management contract) that give the holder the ability to direct the relevant activities

Special relationships beyond a passive interest – sometimes there may be indicators present that an investor has more than simply a passive interest. The following suggest that the entity mas more than a passive interest:
- ✓ The relationship between the entity and the other entity's operations is one of dependence (e.g. funding, guarantees, services, materials etc)
- ✓ A significant portion of the other entity's activities either involve or are conducted on behalf of the other entity
- ✓ The entity's exposure, or rights, to benefits from its involvement with the other entity is disproportionately granter than its voting or other similar rights

Substantive rights – only these are considered in assessing power, factors to consider whether rights are substantive include (but are not limited to):
- ✓ Whether there are barriers that prevent the holder from exercising (e.g. financial penalties, detrimental exercise conversion price, detrimental terms and conditions, laws and regulations)
- ✓ Whether there is a practical mechanism to facilitate multiple parties exercising rights
- ✓ Whether the party holding the rights would benefit from the exercise of those rights
- ✓ Whether the rights are actually exercisable when decision about the relevant activities need to be made

Protective rights – are designed to protect the interest of the holder, but do not give the holder the power over the entity

Voting rights

Power with a majority of the voting rights, where:
- ✓ Relevant activities are directed by vote
- ✓ Majority of the members of the board of directors (or equivalent) are appointed by vote

Majority of voting rights but no power, where:
- ✓ Relevant activities not directed by vote
- ✓ Such voting rights are not substantive

De-facto control

Power without a majority of the voting rights, where:
- ✓ Power to appoint or remove majority of member of board (or equivalent) and control of the other entity is by the board (or equivalent)
- ✓ Binding arrangement between entity and other vote holders
- ✓ Rights arising from binding arrangements
- ✓ Special voting rights (e.g. golden share)
- ✓ Potential voting rights (if substantive)
- ✓ A combination of above