

Consolidation

Part 01

Chartered Accountancy

Corporate Level

Financial Reporting and Governance (FRG)

Sandeepa Jayasekera

ACA, B.Sc. (Accounting) Sp. Hons., ACMA (SL), SAT, CIMA Passed Finalist,
Reading for MBA (PIM), CA and CIMA Prize Winner



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CA - Corporate Level CONSOLIDATION

Sandeepa Jayasekera

B.Sc. (Acct.) Hons. Gold medal winner, ACA, SAT, ACMA (SL), CIMA Passed Finalist, CA Prize winner for AFR subject and CAB II First in Order of Merit, CIMA Strategic Level Aggregate Prize winner, Reading for MBA (PIM - USJP).

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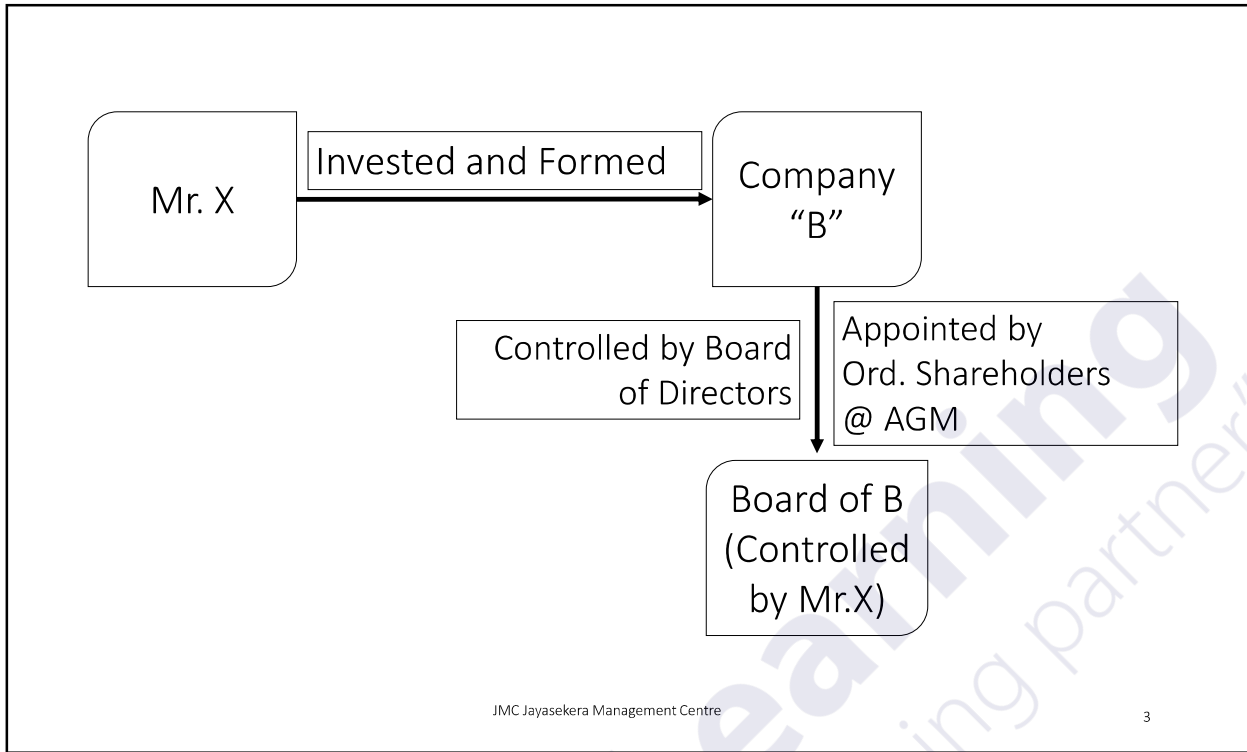
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What is Consolidation?

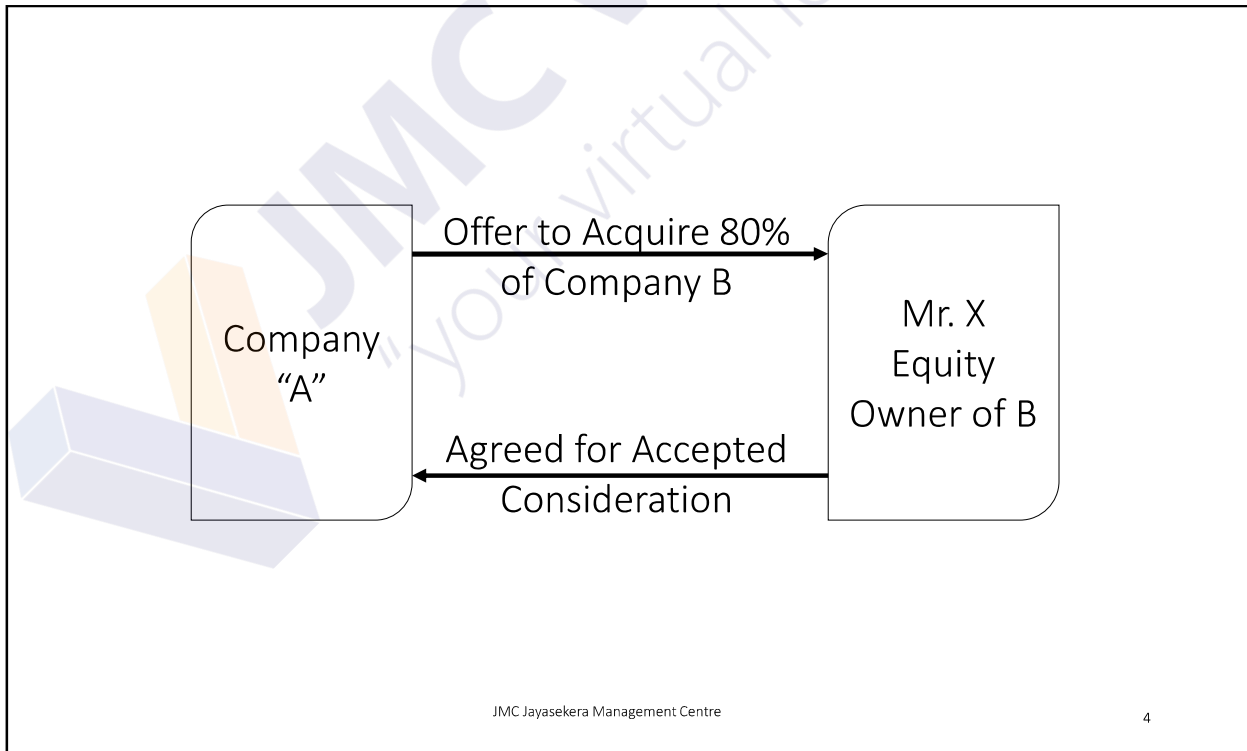
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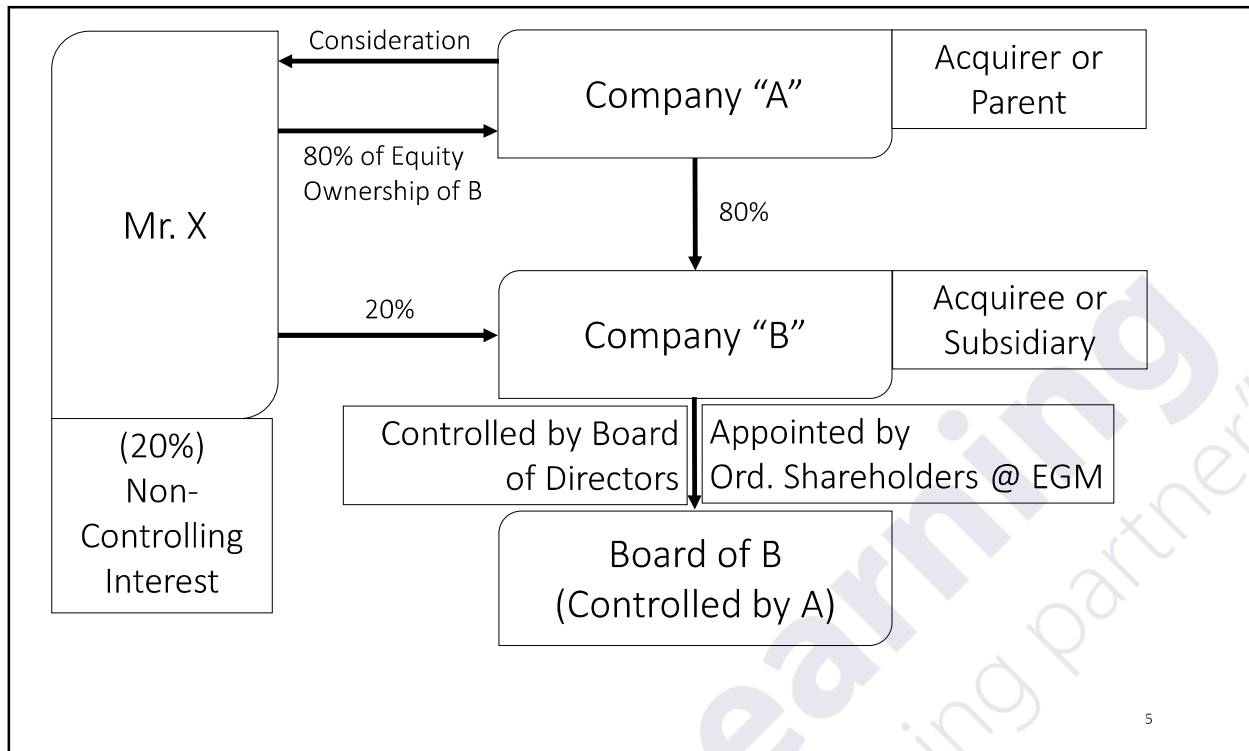
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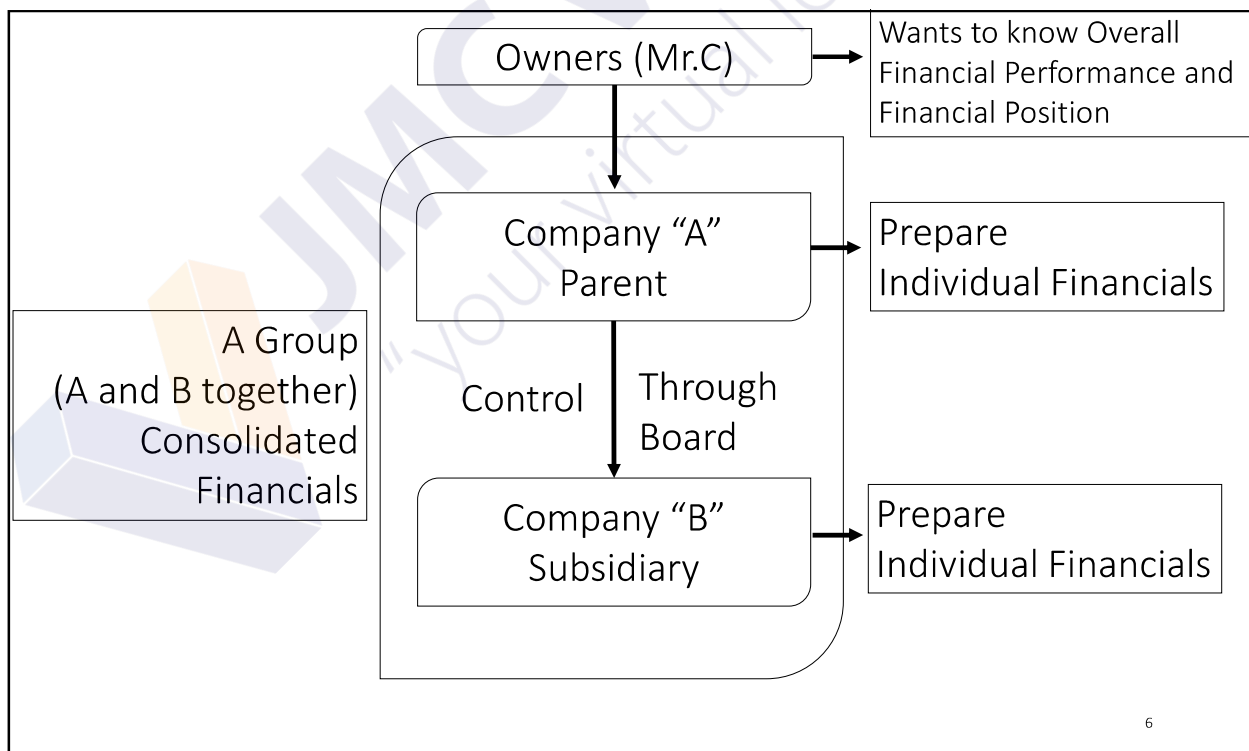
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Why Companies Acquire Another Company?

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Synergies

Integrate

- Horizontally
- Vertically

Reduce Risk

- Conglomerate

Economies of Scale

To Use Strategic Resources such as Intellectual Properties

To Turnaround Opportunities

When Target is Undervalued

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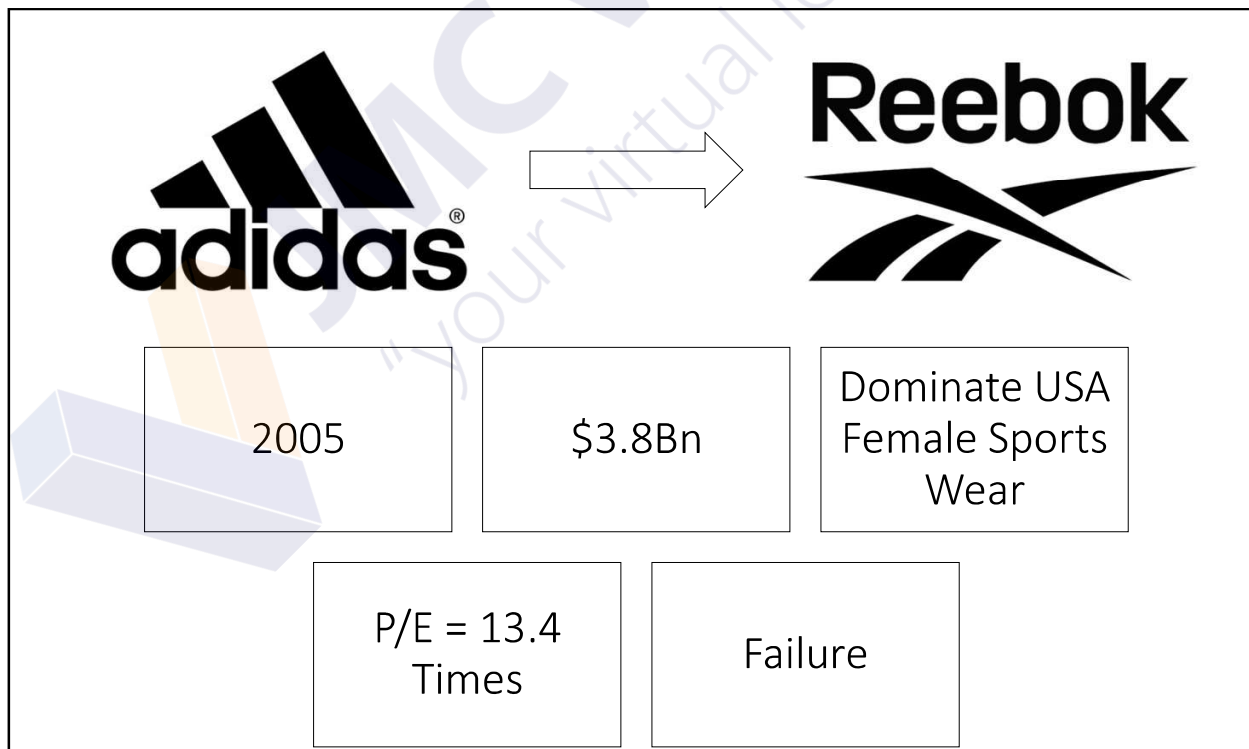
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Real Life Examples

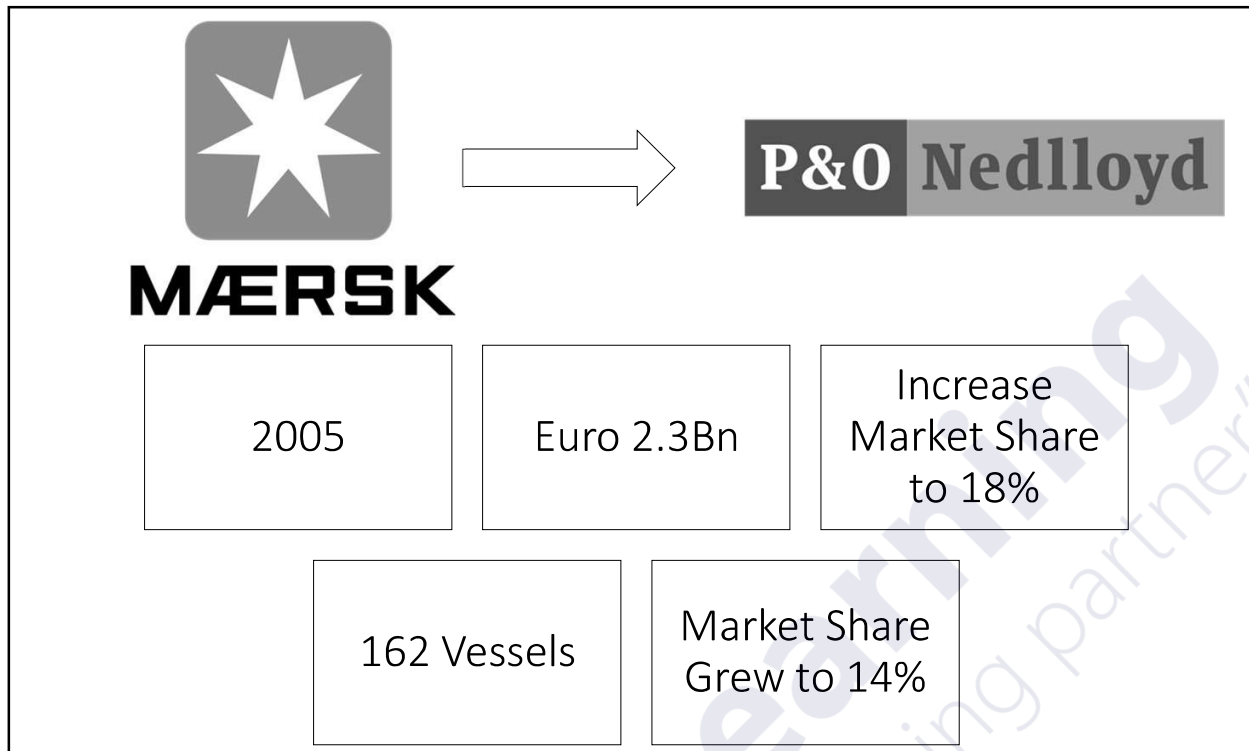
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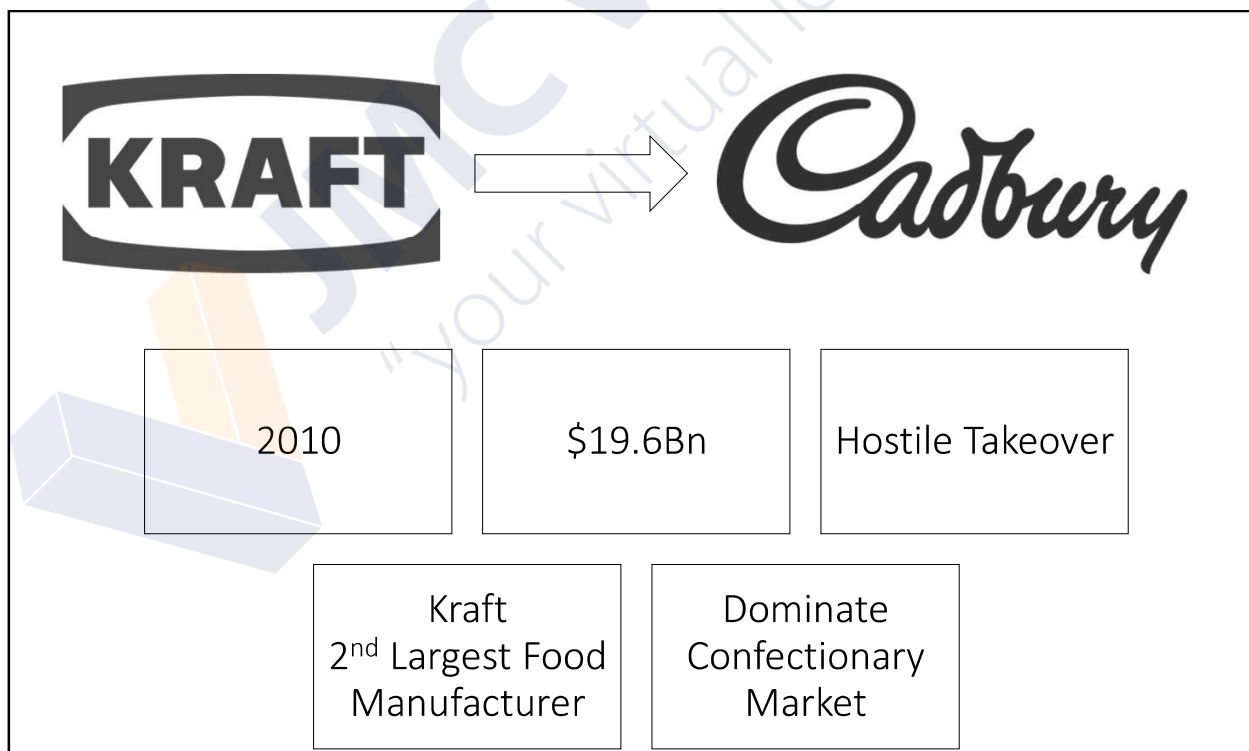
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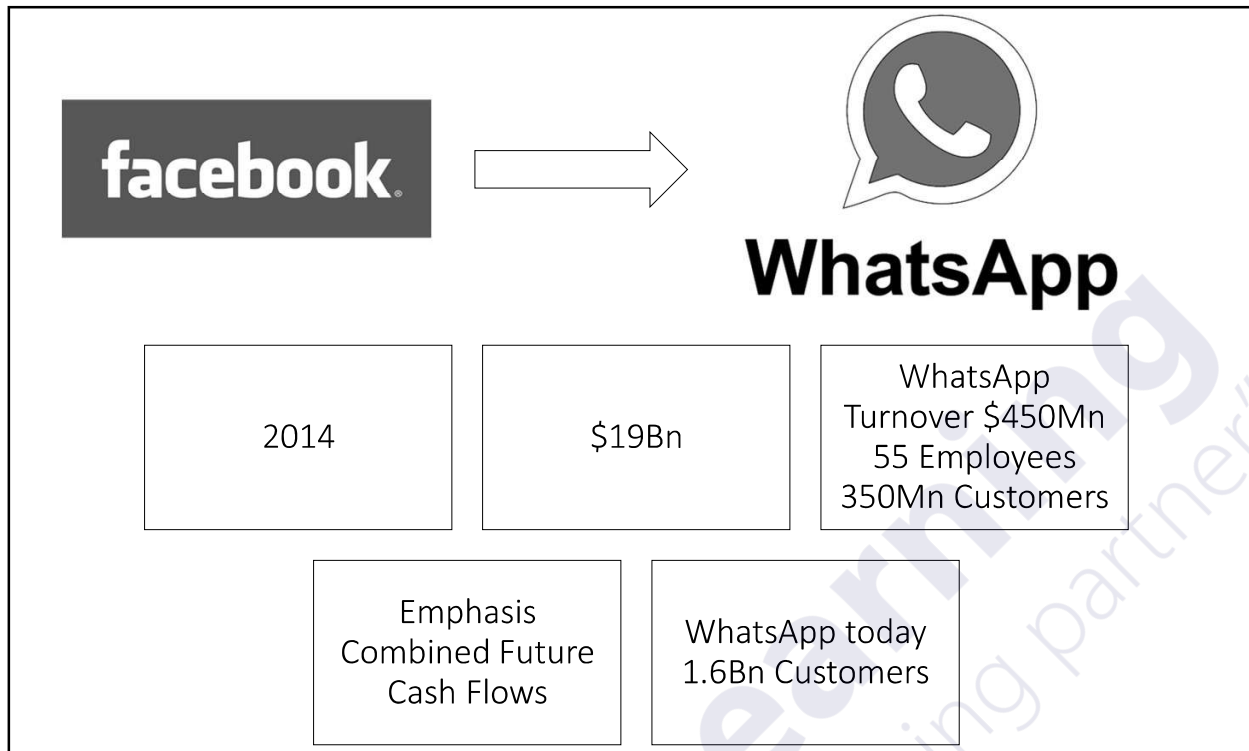
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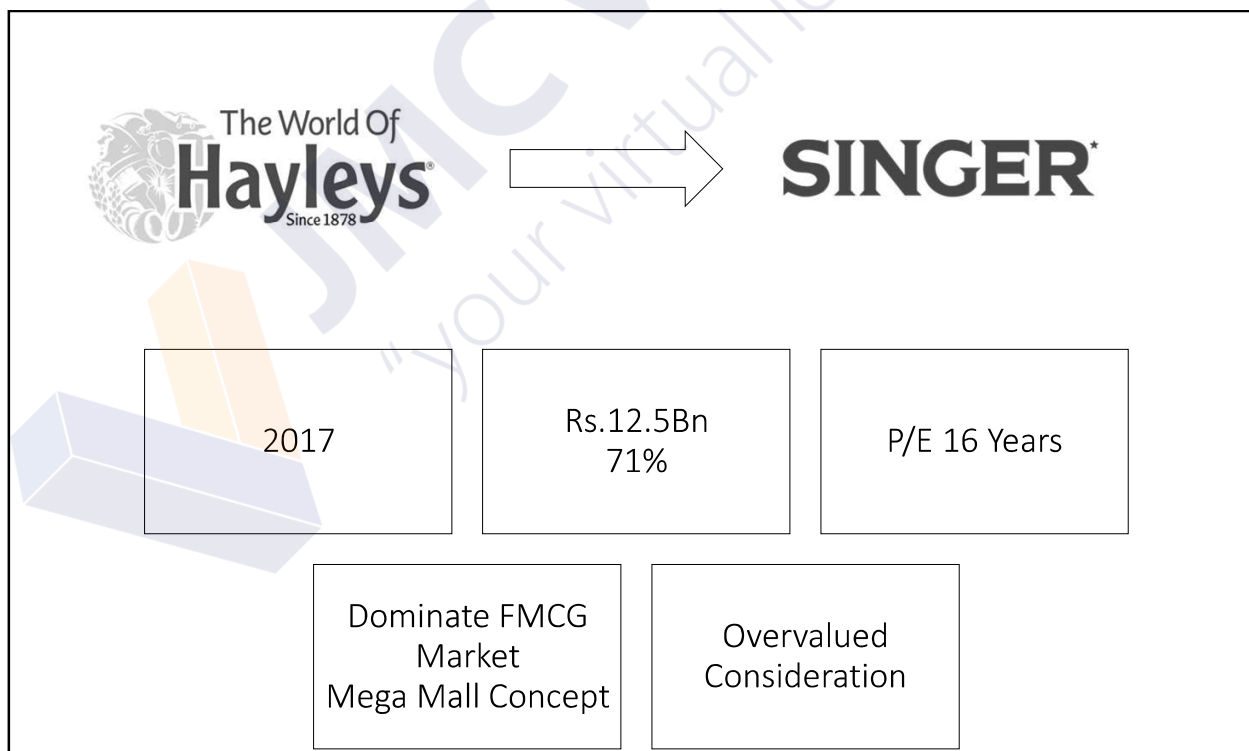
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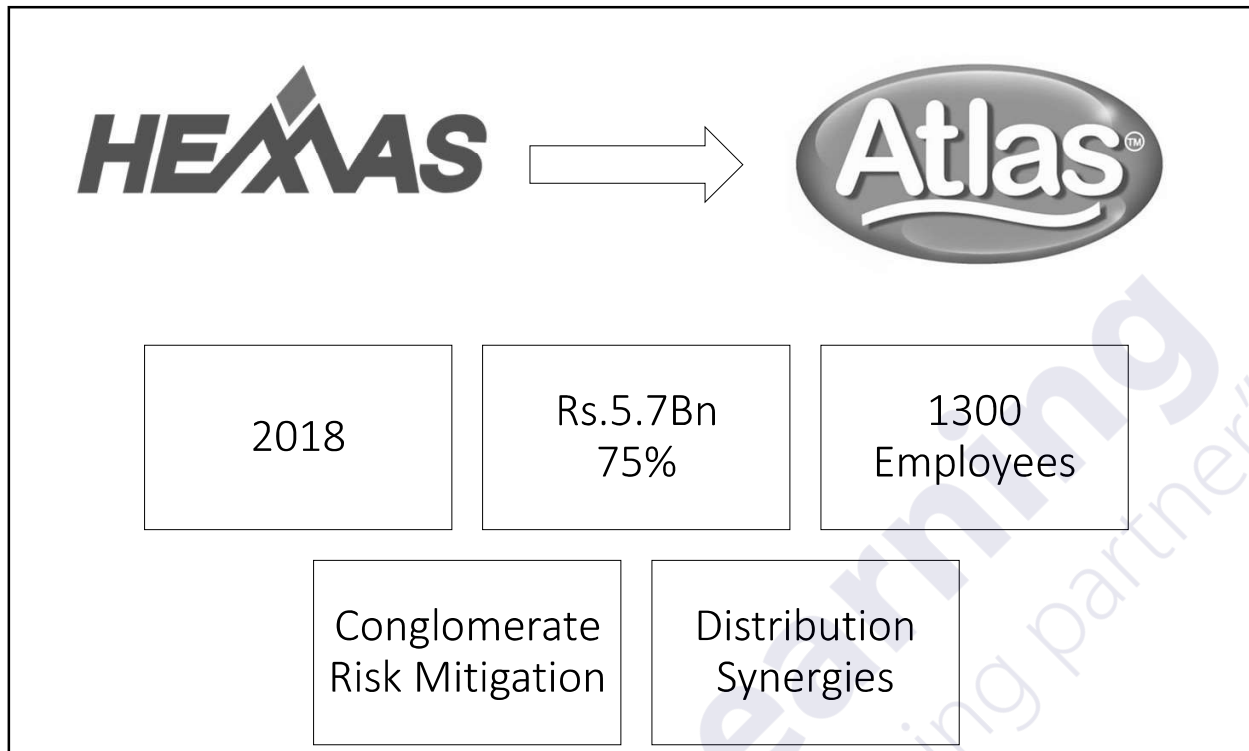
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Syllabus Overview

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Syllabus Overview

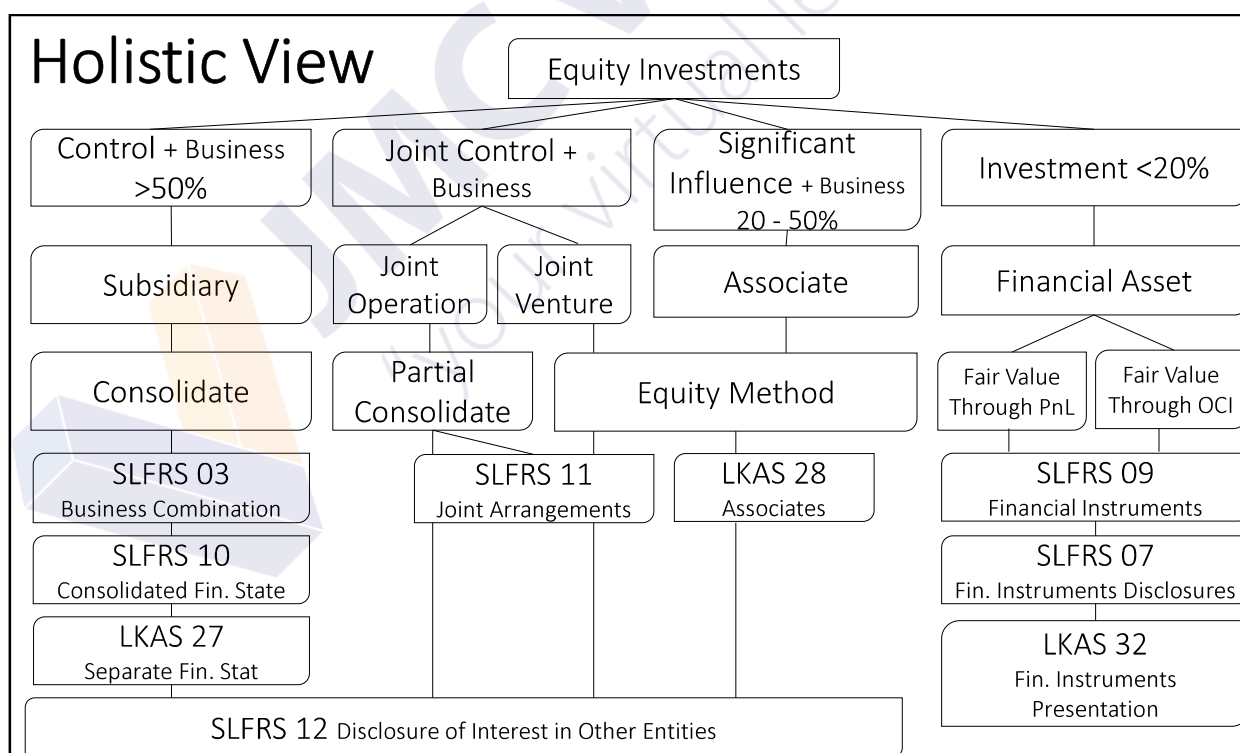
Prepare Consolidated

- Statement of Financial Position
 - Profit or Loss
- } 1 or 2 Subsidiaries and an Associate or Joint Venture

Emphasis on

- Concepts (Goodwill/Non-Controlling Interest/Intercompany/Unrealized Profits/Dividends/Fair Value)
- Standards (LKAS 27/LKAS 28/SLFRS 03/SLFRS 10/SLFRS 11/SLFRS 12)
- Disclosures
- Applying professional judgement in Certain Accounting treatments

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Consolidation Theory

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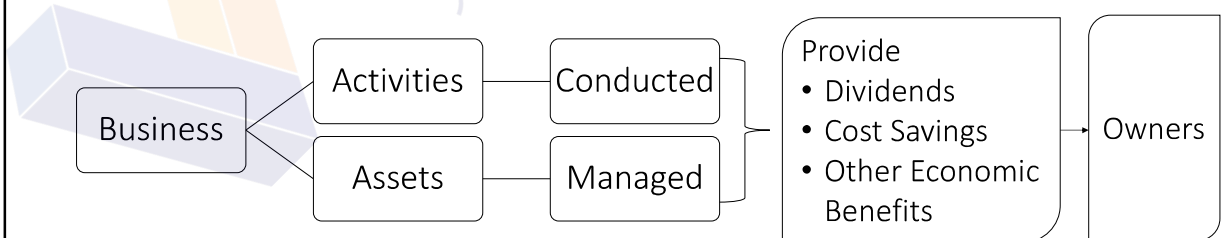
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Definitions

Business Combination (Para 03 of SLRFS 03)

- Transaction
- Where a Parent
- Obtain Control of
- A Business



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Definitions

Parent

- Entity Which
- Controls Subsidiary

Subsidiary

- Entity Which is
- Under the Control of Parent

Non-Controlling Interest

- Equity
- Not Attributable to Parent

Acquisition Date

- Date on Which
- Control was Obtained
 - Consideration Transfer Day or
 - Agreement Day

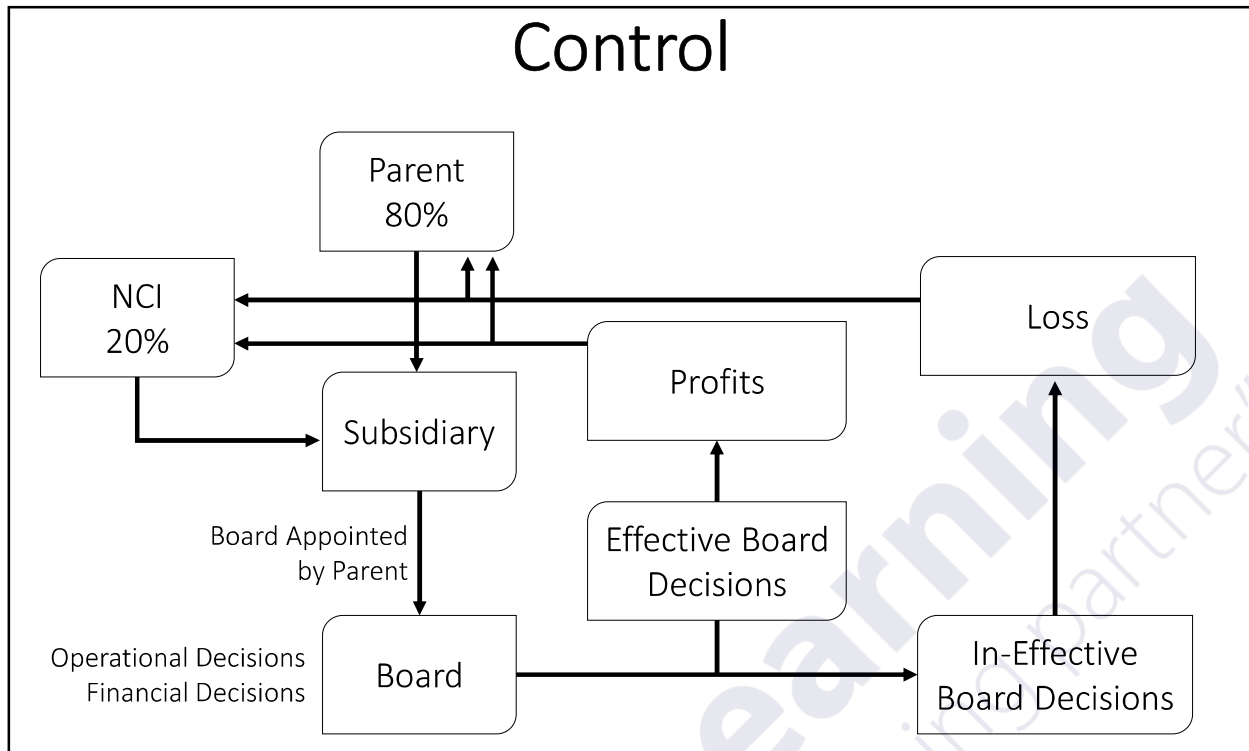
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Definitions

Control

- Parent Controls Subsidiary
- When Parent is exposed to, or has rights over variable returns
- From its involvement with the subsidiary and
- Has the ability to affect those returns through its power over the investee

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03 Elements in Control

Power	Exposure to Variable Returns	Link between Power and Return
<ul style="list-style-type: none"> • Existing Right • Gives Current Ability • To Direct Relevant Activities <ul style="list-style-type: none"> • Operations • Finance 	<ul style="list-style-type: none"> • Profits • Losses 	<ul style="list-style-type: none"> • Effective Decisions Lead to Profits • Ineffective Decisions Lead to Losses

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Examples of Relevant Activities and Decisions

Operational Activities

- Buying and Selling
- Manufacturing
- Human Resource Handling
- Administration
- Marketing
- Research and Development

Operational Decisions

- What is the Buying Quantity?
- What is our Pricing Decision?
- How to Allocate Overhead?
- Whom to be Recruited?
- Whom to be Given Salary Increments?
- What is our Marketing Strategy?
- Whether to Enter New Market?
- Whether to Close Down a Segment?

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Examples of Relevant Activities and Decisions

Finance Activities

- Investments
 - Short Term
 - Long Term
- Funding Structure
 - Debt Finance
 - Sources
 - Rates
 - Duration
 - Equity Finance

Finance Decisions

- Where to Invest?
- How much to Invest?
- Investment Proportions?
- Where to Obtain Loans?
- At What rates to Obtain Loans?
- Duration of Loan Periods?
- Whether to issue Rights?

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Protective Rights Does Not Give Power

Protective Rights

- Rights Designed
- To Protect Interest of Party Holding the Right
- Does Not provide Power
- To Direct Relevant Activities

Example

- Franchiser can Take Actions to Protect Brand
- Can't Direct Franchisee's Operations and Finance

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Methods of Acquiring Control

More than 50% Voting Ordinary Shares

De-Facto Control

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De-Facto Control

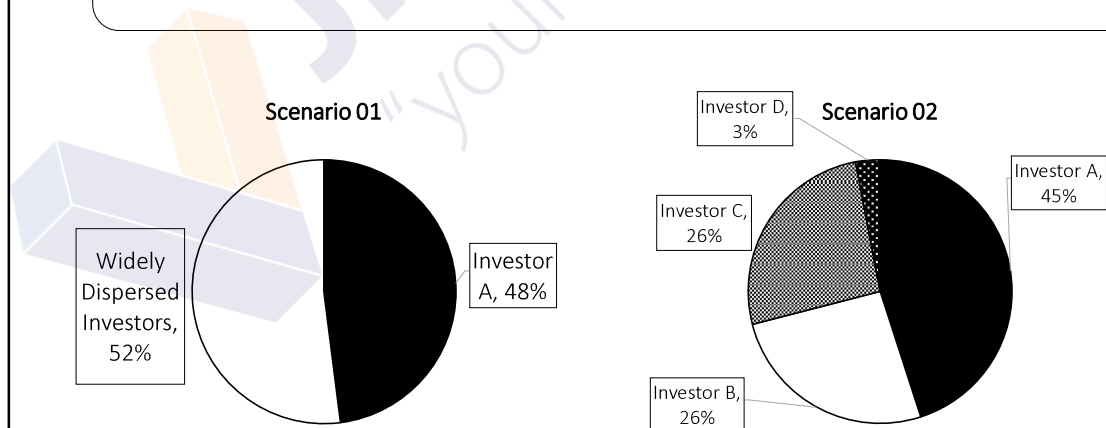
Less than 50% Voting Ordinary Shares but Control is Obtained

- Agreement or Parliament Act
- Size of Voting Rights Compared to Size and Dispersion of Other Vote Holders
- Voting Patterns
- Potential Voting Rights

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De-Facto Control

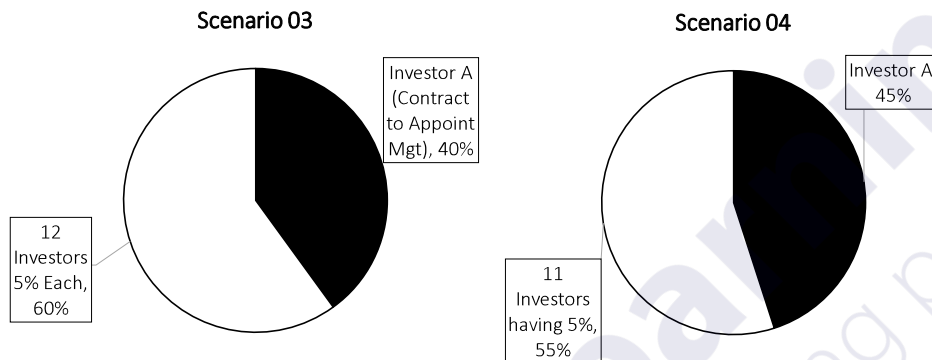
Size of Voting Rights Compared to Size and Dispersion of Other Vote Holders



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De-Facto Control

Size of Voting Rights Compared to Size and Dispersion of Other Vote Holders



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If Parent Controls a
Subsidiary, Preparation of
Consolidated Financials for
Parent's Group is a Must!

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Exemptions for Preparing Consolidated Financials

All of following criteria needs to be fulfilled

- Owners agree for not preparing Consolidated Financials
- Absence of Quoted Debt or Equity Instruments
- Not in the Process of getting Listed
- Ultimate or Intermediate Parent prepares and publish Consolidated FS

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Investment Entities are exempted from consolidation

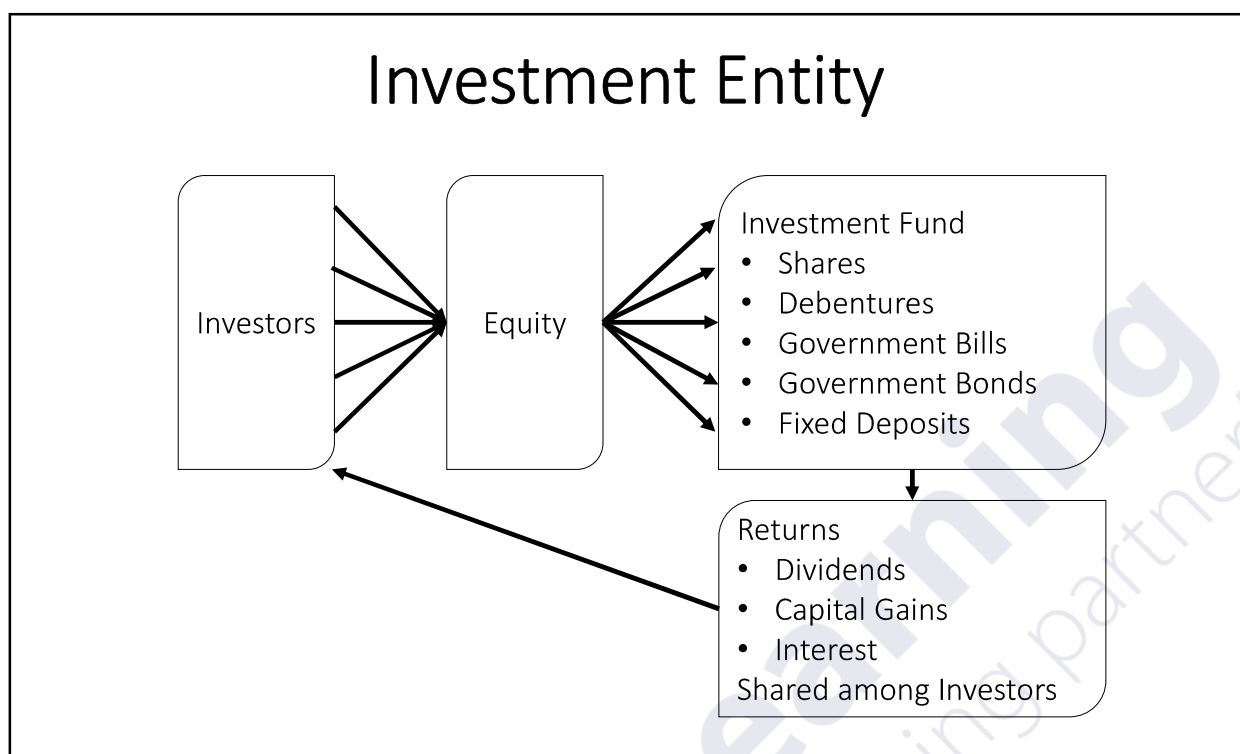
What is an Investment Entity?

- Obtains funds from investors and manage
- Business purpose is to earn returns from capital appreciation, investment income, or both, and
- Measures and evaluates the performance of all of its investments on a fair value basis.

Examples

- Investment Funds
- Mutual Funds
- Asset Management Companies
- Venture Capital Companies

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Accounting Treatment for Investment Entities

Objective of Investments by Investment Entity

- Earn an Investment Income
- Not to Control
- Performance Depend on Fair Value of Investment Portfolio

SLFRS 09 – Fair Value through Profit or Loss Applied

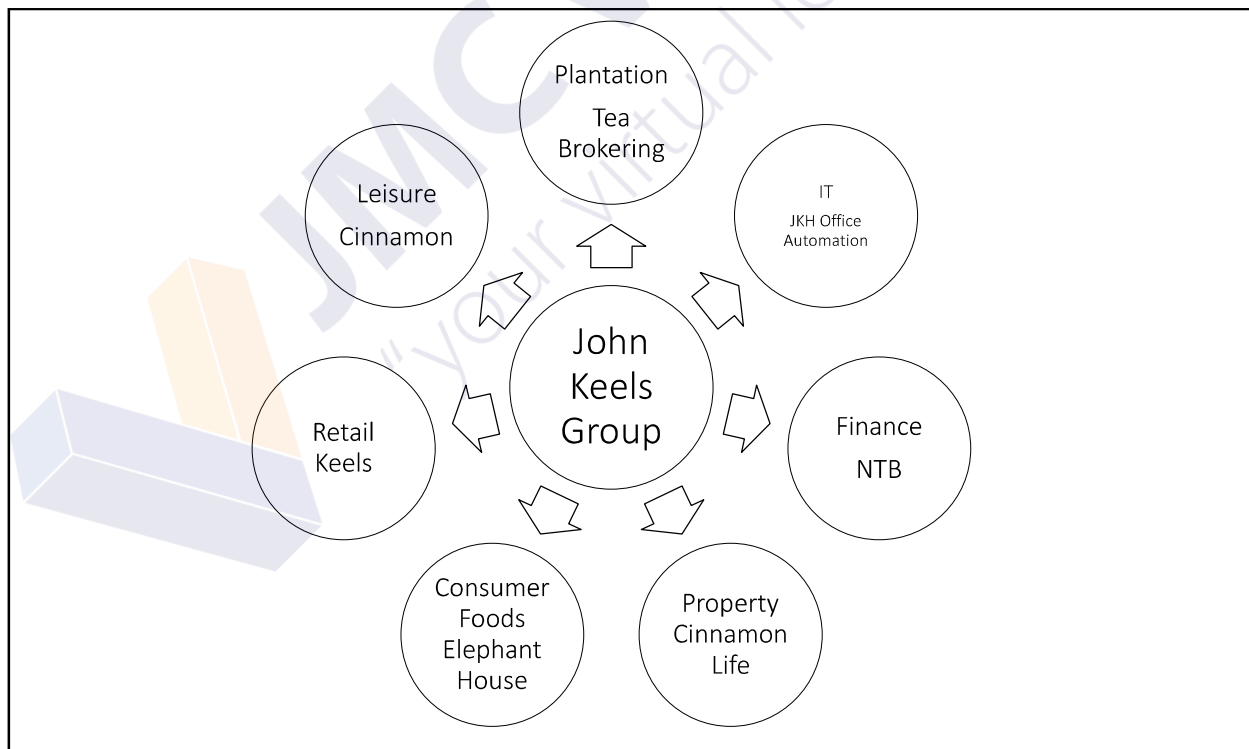
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Do We Need to Consolidate All Subsidiaries in a Group?

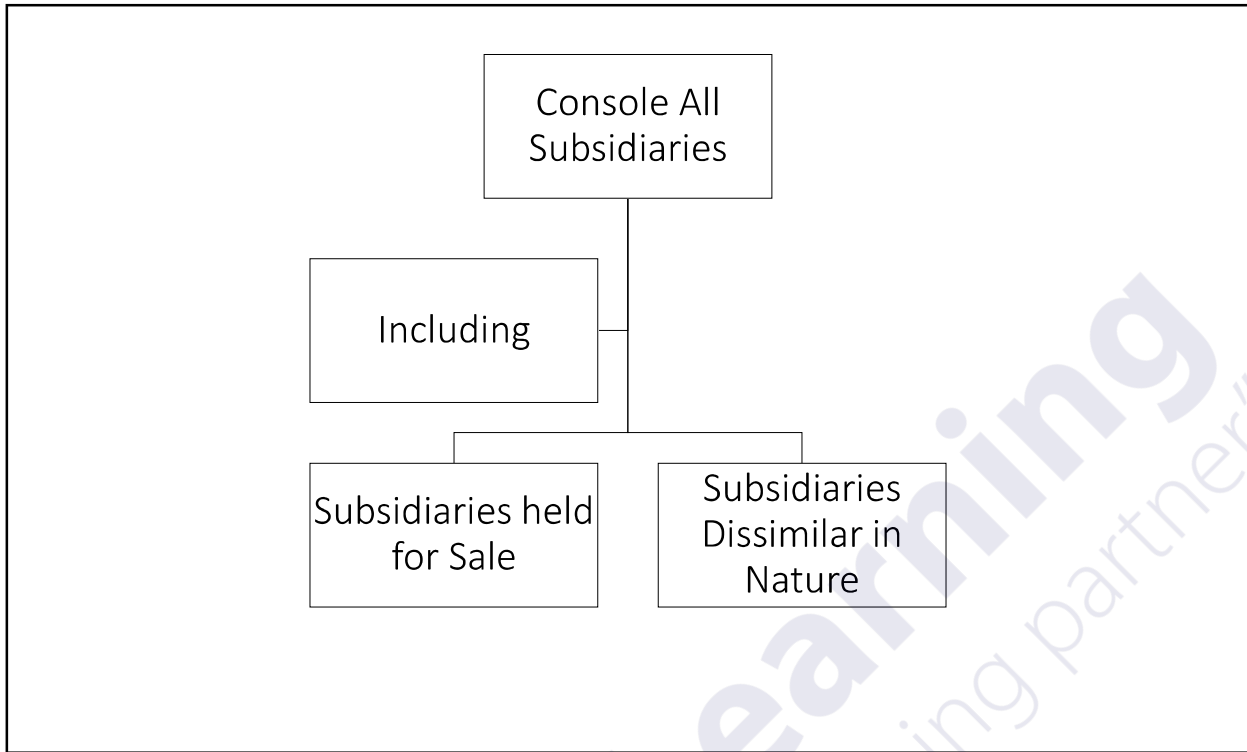
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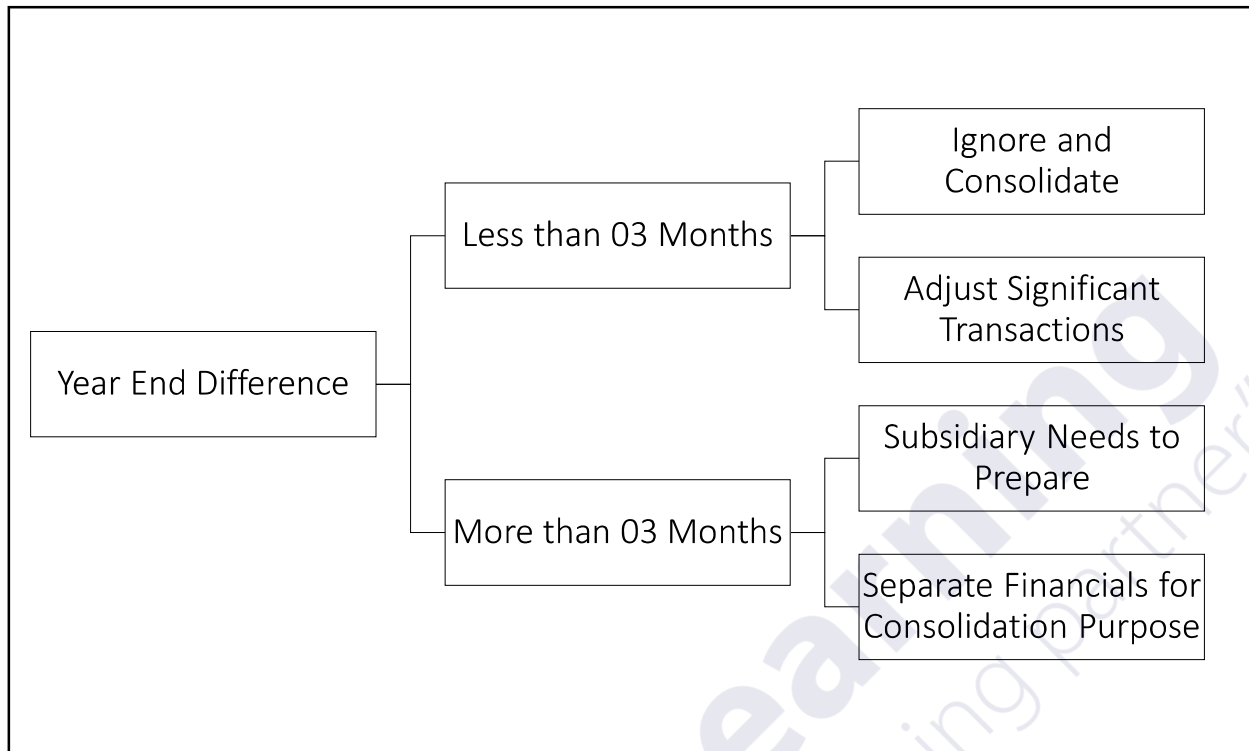
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What if Subsidiary Year End is Different to Parent's Year End?

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What if Subsidiary's Accounting Policies are Different with Parent's Accounting Policies?

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Uniform Accounting Policies shall be Applied

If there's a Difference, Adjustments Made

- Hayley's group apply cost method for buildings.
- Subsidiaries with Revaluation model have to reverse the revaluation effect

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