Lecture 2: Introduction to Consolidation

- Accounting standards - AASB 10 replaced AASB 127 in Jan 2013
  - Apply AASB10!
  - Difference: AASB10 changed the definition of control
- Type of accounting for investing company is dependent on the level of influence that the investing company has
- Mid sem exam = up to topic 6

Level of influence	Accounting requirement	Accounting standard	Covered
Control	Consolidated financial statements	AASB 127.10	Topics 2-7
Joint control	Equity accounting or proportional consolidation	AASB 131.11	Topics 9-10
Significant influence	Equity accounting	AASB 128	Topic 8
Investments without influence	Fair value with fair value changes recognised through profit and loss (trading investments) or directly in equity (available-for-sale investments)	AASB 139	Not covered in this subject

- Consolidated financial statements – FS of the group presented as those of a single economic entity
  - Parent – an entity that has one of more subsidiaries
  - Subsidiary – an entity, including a partnership, that is controlled by another entity
  - Group – a parent and all its subsidiaries (economic entity = group)
- Purpose of consolidations FS – to show the financial performance and position of a group as if they were operating as a single economic entity
- Advantages of consolidated FS:
  - Provides info on the group to stakeholders in the parent entity to allow assessment of the performance of mgmt. in operating all resources under their control
  - Subsidiary stakeholders must look to those entities for information
  - Ability to assess performance and financial position using parent company's FS is limited as:
    - Earnings only includes dividends received from subs
    - BS only includes investment account
- Limitations:
  - The group is not a legal entity- only legal entities can pay dividends
  - Adjustments made on consolidation do not affect distributable profit
  - Shareholders have legal status only in the entities in which they holds shares
  - Liabilities owned by individual entities, not group