

Exposure Draft 48

October 2013

Comments due: February 28, 2014

*Proposed International Public Sector Accounting
Standard*

Separate Financial Statements

IPSASB

International Public
Sector Accounting
Standards Board™

This Exposure Draft 48, *Separate Financial Statements*, was developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

The IPSASB sets International Public Sector Accounting Standards (IPSASs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies. A key part of the IPSASB's strategy is to converge the IPSASs, to the extent appropriate, with the IFRSs issued by the IASB.

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening transparency and accountability of public sector finances.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants (IFAC).

Copyright © October 2013 by the International Federation of Accountants (IFAC). For copyright, trademark, and permissions information, please see [page 14](#).

REQUEST FOR COMMENTS

This Exposure Draft 48, *Separate Financial Statements*, was developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by February 28, 2014.**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "[Submit a Comment](#)" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. Although IPSASB prefers that comments are submitted via its website, comments can also be sent to Stephenie Fox, IPSASB Technical Director at stepheniefox@ipsasb.org.

This publication may be downloaded free of charge from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

Objective of the Exposure Draft

The objective of this Exposure Draft is to propose the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

Guide for Respondents

The IPSASB would welcome comments on all of the matters discussed in this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The Specific Matter for Comment requested for the Exposure Draft is provided below.

Specific Matter for Comment 1:

Do you agree generally with the proposals for separate financial statements? In particular, do you agree with the proposal to permit the use of the equity method, in addition to cost or fair value, for investments in other entities?

IPSAS XX (ED 48) — SEPARATE FINANCIAL STATEMENTS

CONTENTS

| | Paragraph |
|--|-----------|
| Objective | 1 |
| Scope | 2–5 |
| Definitions..... | 6–10 |
| Preparation of Separate Financial Statements | 11–18 |
| Disclosure..... | 19–29 |
| Effective Date..... | 30–31 |
| Withdrawal of IPSAS 6 (December 2006)..... | 32 |
| Basis for Conclusions | |
| Comparison with IAS 27 (Amended in 2011) | |

International Public Sector Standard XX (ED 48), *Separate Financial Statements*, is set out in paragraphs 1-31. All the paragraphs have equal authority. IPSAS XX (ED 48) should be read in the context of its objective, the Basis for Conclusions, and the *Preface to International Public Sector Accounting Standards*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for investments in controlled entities, joint ventures and associates when it elects, or is required by regulations, to present separate financial statements.**
3. This Standard does not mandate which entities produce separate financial statements. It applies when an entity prepares separate financial statements that comply with International Public Sector Accounting Standards (IPSASs).
4. **This Standard applies to all public sector entities other than Government Business Enterprises (GBEs).**
5. The *Preface to International Public Sector Accounting Standards* issued by the IPSASB explains that GBEs apply IFRSs issued by the IASB. GBEs are defined in IPSAS 1, *Presentation of Financial Statements*.

Definitions

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

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

Separate financial statements are those presented by a controlling entity (i.e., an entity with control of another entity) or an investor with joint control of, or significant influence over, another entity, in which the investments are accounted for using the equity method as described in IPSAS XX (ED 50), *Investments in Associates and Joint Ventures*, at cost, or in accordance with IPSAS 29, *Financial Instruments: Recognition and Measurement*.

Terms defined in other IPSASs are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

7. Separate financial statements are those presented in addition to consolidated financial statements or in addition to financial statements in which investments in associates or joint ventures are accounted for using the equity method, other than in the circumstances set out in paragraphs 9–10. Separate financial statements need not be appended to, or accompany, those statements.
8. The financial statements of an entity that does not have a controlled entity, associate or joint venturer's interest in a joint venture are not separate financial statements.

9. An entity that is exempted in accordance with paragraph 5(a) of IPSAS XX (ED 49), *Consolidated Financial Statements*, from consolidation or paragraph 23 of IPSAS XX (ED 50), from applying the equity method may present separate financial statements as its only financial statements.
10. An investment entity that is required, throughout the current period and all comparative periods presented, to measure its investment in all its controlled entities at fair value through surplus or deficit in accordance with paragraph 52 of IPSAS XX (ED 49), presents separate financial statements as its only financial statements.

Preparation of Separate Financial Statements

11. **Separate financial statements shall be prepared in accordance with all applicable IPSASs, except as provided in paragraph 12.**
12. **When an entity prepares separate financial statements, it shall account for investments in controlled entities, joint ventures and associates either:**

- (a) **Using the equity method as described in IPSAS XX (ED 50);**
- (b) **At cost, or**
- (c) **In accordance with IPSAS 29.**

The entity shall apply the same accounting for each category of investments.

13. If an entity elects, in accordance with paragraph 24 of IPSAS XX (ED 50), to measure its investments in associates or joint ventures at fair value through surplus or deficit in accordance with IPSAS 29, it shall also account for those investments in the same way in its separate financial statements.
14. If a controlling entity is required, in accordance with paragraph 52 of IPSAS XX (ED 49), to measure its investment in a controlled entity at fair value through surplus or deficit in accordance with IPSAS 29, it shall also account for its investment in a controlled entity in the same way in its separate financial statements. If a controlling entity that is not itself an investment entity is required, in accordance with paragraph 54 of IPSAS XX (ED 49), to measure its investment in the investments of a controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29, it shall also account for those investments in the same way in its separate financial statements.
15. When a controlling entity ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred, as follows:
 - (a) When an entity ceases to be an investment entity, the entity shall, in accordance with paragraph 12, either:
 - (i) Account for an investment in a controlled entity using the equity method as described in IPSAS XX (ED 50);
 - (ii) Account for an investment in a controlled entity at cost. The fair value of the controlled entity at the date of the change of status shall be used as the deemed cost at that date; or
 - (iii) Continue to account for an investment in a controlled entity in accordance with IPSAS 29.

- (b) When an entity becomes an investment entity, it shall account for an investment in a controlled entity at fair value through surplus or deficit in accordance with IPSAS 29. The difference between the previous carrying amount of the controlled entity and its fair value at the date of the change of status of the investor shall be recognized as a gain or loss in surplus or deficit. The cumulative amount of any fair value adjustment previously recognized directly in net assets/equity in respect of those controlled entities shall be treated as if the investment entity had disposed of those controlled entities at the date of change in status.
16. **An entity shall recognize a dividend or similar distribution from a controlled entity, a joint venture or an associate in surplus or deficit in its separate financial statements when its right to receive the dividend or similar distribution is established.**
17. When a controlling entity reorganizes the structure of its economic entity by establishing a new entity as its controlling entity in a manner that satisfies the following criteria:
- (a) The new controlling entity obtains control of the original controlling entity either (i) by issuing equity instruments in exchange for existing equity instruments of the original controlling entity or (ii) by some other mechanism which results in the new controlling entity having a controlling ownership interest in the original controlling entity;
 - (b) The assets and liabilities of the new economic entity and the original economic entity are the same immediately before and after the reorganization; and
 - (c) The owners of the original controlling entity before the reorganization have the same absolute and relative interests in the net assets of the original economic entity and the new economic entity immediately before and after the reorganization,
- and the new controlling entity accounts for its investment in the original controlling entity in accordance with paragraph 12(b) in its separate financial statements, the new controlling entity shall measure cost at the carrying amount of its share of the net assets/equity items shown in the separate financial statements of the original controlling entity at the date of the reorganization.
18. Similarly, an entity that is not a controlling entity might establish a new entity as its controlling entity in a manner that satisfies the criteria in paragraph 17. The requirements in paragraph 17 apply equally to such reorganizations. In such cases, references to “original controlling entity” and “original economic entity” are to the “original entity”.

Disclosure

19. **An entity shall apply all applicable IPSASs when providing disclosures in its separate financial statements, including the requirements in paragraphs 20 and 22.**
20. **When a controlling entity, in accordance with paragraph 5(a) of IPSAS XX (ED 49), elects not to prepare consolidated financial statements and instead prepares separate financial statements, it shall disclose in those separate financial statements:**
- (a) **The fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name of the entity whose consolidated financial statements that comply with IPSASs have been produced for public use; and the address where those consolidated financial statements are obtainable.**

- (b) **A list of significant investments in controlled entities, joint ventures and associates, including:**
 - (i) **The name of those controlled entities, joint ventures and associates.**
 - (ii) **The jurisdiction in which those controlled entities, joint ventures and associates operate (if it is different from that of the controlling entity).**
 - (iii) **Its proportion of the ownership interest held in those entities and a description of how that ownership interest has been determined.**
 - (c) **A description of the method used to account for the controlled entities, joint ventures and associates listed under (b).**
21. **When an investment entity that is a controlling entity (other than a controlling entity covered by paragraph 20) prepares, in accordance with paragraph 10, separate financial statements as its only financial statements, it shall disclose that fact. The investment entity shall also present the disclosures relating to investment entities required by IPSAS XX (ED 52), *Disclosure of Interests in Other Entities*.**
22. **When a controlling entity (other than a controlling entity covered by paragraphs 20–21) or an investor with joint control of, or significant influence over, an investee prepares separate financial statements, the controlling entity or investor shall identify the financial statements prepared in accordance with IPSAS XX (ED 49), IPSAS XX (ED 51), *Joint Arrangements*, or IPSAS XX (ED 50), to which they relate. The controlling entity or investor shall also disclose in its separate financial statements:**
- (a) **The fact that the statements are separate financial statements and the reasons why those statements are prepared if not required by legislation or other authority;**
 - (b) **A list of significant controlled entities, joint ventures and associates, including:**
 - (i) **The name of those controlled entities, joint ventures and associates;**
 - (ii) **The jurisdiction in which those controlled entities, joint ventures and associates operate (if different from that of the controlling entity); and**
 - (iii) **Its proportion of the ownership interest held in those entities and a description of how that ownership interest has been determined.**
- and**
- (c) **A description of the method used to account for the controlled entities, joint ventures and associates listed under (b).**

Initial Application

23. **At the date of initial application, an investment entity that previously measured its investment in a controlled entity at cost shall instead measure that investment at fair value through surplus or deficit as if the requirements of this Standard had always been effective. The investment entity shall adjust retrospectively the annual period immediately preceding the date of initial application and shall adjust accumulated surplus/deficit at the beginning of the immediately preceding period for any difference between:**
- (a) **The previous carrying amount of the investment; and**

- (b) The fair value of the investor's investment in the controlled entity.
24. At the date of initial application, an investment entity that previously measured its investment in a controlled entity at fair value directly to net assets/equity shall continue to measure that investment at fair value. The cumulative amount of any fair value adjustment previously recognized in net assets/equity shall be transferred to accumulated surplus/deficit at the beginning of the annual period immediately preceding the date of initial application.
25. At the date of initial application, an investment entity shall not make adjustments to the previous accounting for an interest in a controlled entity that it had previously elected to measure at fair value through surplus or deficit in accordance with IPSAS 29, as permitted in paragraph 12.
26. An investment entity shall use the fair value amounts previously reported to investors or to management.
27. If measuring the investment in the controlled entity in accordance with paragraphs 23–26 is impracticable (as defined in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*), an investment entity shall apply the requirements of this Standard at the beginning of the earliest period for which application of paragraphs 23–26 is practicable, which may be the current period. The investor shall adjust retrospectively the annual period immediately preceding the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. When the date that it is practicable for the investment entity to measure the fair value of the controlled entity is earlier than the beginning of the immediately preceding period, the investor shall adjust net assets/equity at the beginning of the immediately preceding period for any difference between:
- (a) The previous carrying amount of the investment; and
- (b) The fair value of the investor's investment in the controlled entity.
- If the earliest period for which application of this paragraph is practicable is the current period, the adjustment to net assets/equity shall be recognized at the beginning of the current period.
28. If an investment entity has disposed of, or lost control of, an investment in a controlled entity before the date of initial application of this Standard, the investment entity is not required to make adjustments to the previous accounting for that investment.
29. Notwithstanding the references to the annual period immediately preceding the date of initial application (the 'immediately preceding period') in paragraphs 23–27, an entity may also present adjusted comparative information for any earlier periods presented, but is not required to do so. If an entity does present adjusted comparative information for any earlier periods, all references to the 'immediately preceding period' in paragraphs 23–27 shall be read as the 'earliest adjusted comparative period presented'. If an entity presents unadjusted comparative information for any earlier periods, it shall clearly identify the information that has not been adjusted, state that it has been prepared on a different basis, and explain that basis.

Effective Date

30. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after [Date]. Earlier application is encouraged. If an entity applies this Standard for a period beginning before [Date], it shall disclose that fact and apply IPSAS XX (ED 49), IPSAS XX(ED 50), IPSAS XX (ED 51), and IPSAS XX (ED 52) at the same time.**

31. When an entity adopts the accrual basis of accounting as defined by IPSASs 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.

Withdrawal of IPSAS 6 (December 2006)

32. This Standard is issued concurrently with IPSAS XX (ED 49). Together, the two Standards supersede IPSAS 6, *Consolidated and Separate Financial Statements* (December 2006).

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS XX (ED 48), Separate Financial Statements.

Objective

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS XX (ED 48). As this Standard is based on IAS 27, *Separate Financial Statements* (Amended in 2011) issued by the IASB, the Basis for Conclusions outlines only those areas where IPSAS XX (ED 48) departs from the main requirements of IAS 27 (Amended in 2011), or where the IPSASB considered such departures.

Use of the Equity Method in Separate Statements

BC2. IPSAS 6 permitted an entity, in its separate financial statements, to measure investments in controlled entities, jointly controlled entities and associates:

- (a) Using the equity method;
- (b) At cost; or
- (c) As a financial instrument in accordance with IPSAS 29.

BC3. The IPSASB noted that in 2003 the IASB limited the measurement options for investments presented in an entity's separate financial statements by removing the option to use the equity method. The IPSASB noted that the reasons given by the IASB for making this change included the following:

- (a) The focus in separate financial statements is on the performance of the assets as investments. Cost and fair value can provide relevant information for this; and
- (b) To the extent that the equity method provides information about the profit and loss of a subsidiary or an associate, that information would be available in the consolidated financial statements.

BC4. The IPSASB also noted that, at the time it issued IPSAS XX (ED 49), the IASB had signaled its intention to reconsider the use of the equity method in separate financial statements. In deciding to reconsider this issue the IASB acknowledged that corporate law in some countries requires that the equity method of accounting be used to measure certain investments when presenting separate financial statements.

BC5. The IPSASB decided to continue to permit the use of the equity method in separate financial statements for the following reasons:

- (a) The equity method is a well-established method of accounting for certain investments in the public sector. In many circumstances where investments are held by public sector entities, the equity method can provide information that is reliable and useful, and possibly at a lower cost than either the cost method or the fair value method. In the public sector, investment entities are often used more as "instruments" to enable service provision, rather than as a holding for investment purposes, as might generally be the case in the private sector. The equity method may therefore, in some circumstances, be better suited to meeting user needs in the public sector, as it allows

the financial statements to portray the fluctuations in the equity of, and performance by, an investment over time, in a cost effective and easily understood manner.

- (b) Although application of the cost method is often relatively straightforward, where investments have been held for some time, using the cost method may result in outdated and less relevant information, in which case, it would not meet user needs.
- (c) In the public sector there are likely to be a higher proportion of investments for which there are no active markets and in respect of which fair values are not readily observable. Although the guidance in IPSAS 29 can be used to derive a value for such investments, the IPSASB considered that this approach would generally result in information that did not faithfully represent the underlying circumstances.

Separate Financial Statements of Investment Entities

- BC6. In developing IPSAS XX (ED 49) the IPSASB decided to introduce the concept of investment entities and require that a controlling entity that is an investment entity shall measure its investments in most controlled entities at fair value through surplus or deficit in accordance with IPSAS 29.
- BC7. Consequently, the IPSASB decided to require that an investment entity measure its investments in controlled entities at fair value through surplus or deficit in its separate financial statements. The IPSASB also adjusted the disclosure requirements for an investment entity's separate financial statements, noting that if an investment entity prepares separate financial statements as its only financial statements, it is still appropriate for the investment entity to make the disclosures otherwise required in IPSAS XX (ED 52) about its interests in controlled entities.

Comparison with IAS 27 (Amended in 2011)

IPSAS XX (ED 48), *Separate Financial Statements*, is drawn primarily from IAS 27, *Separate Financial Statements* (Amended in 2011). IPSAS XX (ED 48) is based on IAS 27 (Amended in 2011), including the amendments to that Standard as a result of *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27) issued by the IASB in October 2012. At the time of issuing this Standard, the IPSASB has not considered the applicability to public sector entities of IFRS 9, *Financial Instruments*. References to IFRS 9 in the underlying IASB standard have therefore been replaced by references to the IPSASs dealing with financial instruments.

The main differences between IPSAS XX (ED 48) and IAS 27 (Amended in 2011) are as follows:

- IPSAS XX (ED 48) uses different terminology, in certain instances, from IAS 27 (Amended in 2011). The most significant examples are the use of the terms “net assets/equity,” “economic entity,” “controlling entity,” “controlled entity,” “revenue” in IPSAS XX (ED 48). The equivalent terms in IAS 27 (Amended in 2011) are “equity,” “group,” “parent,” “subsidiary” and “income.”
- IPSAS XX (ED 48) permits investments in controlled entities, joint ventures and associates to be accounted for in separate financial statements using the equity method, at cost or as financial instruments in accordance with IPSAS 29, *Financial Instruments: Recognition and Measurement*. IAS 27 (Amended in 2011) does not permit the use of the equity method in separate financial statements.

International Public Sector Accounting Standards, Exposure Drafts, Consultation Papers, and other IPSASB publications are published by, and copyright of, IFAC.

The IPSASB and IFAC do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

The IPSASB logo, 'International Public Sector Accounting Standards Board', 'IPSASB', 'International Public Sector Accounting Standards' 'IPSAS', the IFAC logo, 'International Federation of Accountants', and 'IFAC' are trademarks and service marks of IFAC.

Copyright © October 2013 by the International Federation of Accountants (IFAC). All rights reserved. Permission is granted to make copies of this work to achieve maximum exposure and feedback provided that each copy bears the following credit line: *"Copyright © October 2013 by the International Federation of Accountants (IFAC). All rights reserved. Used with permission of IFAC. Permission is granted to make copies of this work to achieve maximum exposure and feedback."*

Published by:



