

GROUP ACCOUNTS

Basic principles

Single entity concept

- P Ltd and S Ltd – separate **legal** entities
- P Group Ltd – one single entity, prepare accounts using **substance**

Control and ownership

- Control (power to direct activities) – 100%P + 100%S
- NCI - Ownership

A **parent** is an entity that has one or more subsidiaries.

A **subsidiary** is an entity which is controlled by another entity (known as the parent).

The key concept in determining whether or not an investment constitutes a subsidiary is that of **control**.

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

Control is usually achieved by the purchase of more than 50% of a company's equity share capital.

IFRS 10 Consolidated Financial Statements defines control and tells us how to consolidate.

A parent/subsidiary relationship can exist even where the parent owns less than 50% of the voting power of the subsidiary since the key to the relationship is control and the power to direct the activities. Other situations where control exists are when the investor:

- Can exercise the majority of the voting rights in the investee
- Is in a contractual arrangement with others giving control
- Holds < 50% of the voting rights, but the remainder are widely distributed
- Holds potential voting rights which will give control

