ACCOUNTING STANDARDS BOARD

STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

(GRAP 6)

Issued by the
Accounting Standards Board

November 2010

Acknowledgement

The Standard of Generally Recognised Accounting Practice (GRAP) on *Consolidated and Separate Financial Statements* is based on the International Public Sector Accounting Standard (IPSAS) 6 on *Consolidated Financial Statements and Separate Financial Statements* from the *Handbook of International Public Sector Accounting Pronouncements* of the International Public Sector Accounting Standards Board (IPSASB), published by the International Federation of Accountants (IFAC) and is used with the permission of the IFAC.

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CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

This Standard was originally issued by the Accounting Standards Board (the Board) in November 2005. Since then, it has been amended by:

- Improvements to the Standards of GRAP, issued by the Board in November 2010.
- Consequential amendments when the following Standards of GRAP became effective:
  - GRAP 105 *Transfer of Functions Between Entities Under Common Control*
  - GRAP 106 *Transfer of Functions Between Entities Not Under Common Control*
  - GRAP 107 *Mergers*
- Consequential amendments when the following Standard of GRAP became effective:
  - GRAP 104 *Financial Instruments*
- Consequential amendments following the revisions to GRAP 100 *Discontinued Operations* in 2013.

Introduction

Standards of Generally Recognised Accounting Practice

The Accounting Standards Board (the Board) is required in terms of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA), to determine generally recognised accounting practice referred to as Standards of Generally Recognised Accounting Practice (GRAP).

The Board must determine GRAP for:

(a) departments (including national, provincial and government components);

(b) public entities;

(c) trading entities (as defined in the PFMA);

(d) constitutional institutions;

(e) municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership control of a municipality; and

(f) Parliament and the provincial legislatures.

The above are collectively referred to as “entities” in Standards of GRAP.

The Board has approved the application of International Financial Reporting Standards (IFRS® Standards) issued by the International Accounting Standards Board® for:

(a) public entities that meet the criteria outlined in the Directive on *The Selection of an Appropriate Reporting Framework by Public Entities;* and

(b) entities under the ownership control of any of these entities.

Financial statements should be described as complying with Standards of GRAP only if they comply with all the requirements of each applicable Standard and any related Interpretations of the Standards of GRAP.

Any limitation of the applicability of specific Standards or Interpretations is made clear in those Standards or Interpretations.

This Standard is set out in paragraphs .01 to .76. All paragraphs in this Standard have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This Standard should be read in the context of its objective, its basis for conclusions if applicable, the *Preface to Standards of GRAP,* the *Preface to the Interpretations of the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*.

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Reference may be made here to a Standard of GRAP that has not been issued at the time of issue of this Standard. This is done to avoid having to change the Standards already issued when a later Standard is subsequently issued. Paragraph .11 of the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

.01 The objective of this Standard is to prescribe the circumstances in which consolidated and separate financial statements are to be prepared and the information to be included in those financial statements so that the consolidated financial statements reflect the financial performance, financial position and cash flows of an economic entity as a single entity. This Standard further:

(a) identifies the entities that are appropriate to be consolidated into consolidated financial statements for financial reporting purposes;

(b) establishes procedures for preparing consolidated financial statements that reflect the economic substance of the consolidated entity;

(c) specifies minimum disclosures to be made in the consolidated financial statements; and

(d) specifies certain disclosures relating to investments in controlled entities, investments in associates and interests in joint ventures in the separate financial statements of a controlling entity.

Scope

.02 An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in the preparation and presentation of consolidated financial statements for an economic entity.

.03 This Standard does not deal with methods of accounting for transfer of functions and mergers and their effects on consolidation, including the difference between the consideration paid (if any) and the assets acquired and liabilities assumed (see the Standards of GRAP on *Transfer of Functions Between Entities Under Common Control* (GRAP 105) and *Transfer of Functions Between Entities Not Under Common Control* (GRAP 106)).

.04 This Standard shall also be applied in accounting for controlled entities, jointly controlled entities and associates when an entity elects, or is required by regulations, to present separate financial statements.

.05 This Standard establishes requirements for the preparation and presentation of consolidated financial statements, and for accounting for controlled entities, jointly controlled entities and associates in the separate financial statements of the controlling entity, the venturer and the investor. Although Government Business Enterprises (GBEs) are not required to comply with this Standard in their own financial statements, the provisions of this Standard will apply where an entity that is not a GBE has one or more controlled entities, jointly controlled entities and associates that are GBEs. In these circumstances, this Standard should be applied in consolidating GBEs into the financial statements of the economic entity, and in accounting for investments in GBEs in the controlling entity's, venturer's and investor's separate financial statements.

Definitions

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

***Consolidated financial statements** are the financial statements of an economic entity presented as those of a single entity.*

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

***Controlled entity** is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the controlling entity).*

***Controlling entity** is an entity that has one or more controlled entities.*

***Cost method** is a method of accounting for an investment whereby the investment is recognised at cost. The investor recognises revenue from the investment only to the extent that the investor is entitled to receive distributions from accumulated surpluses of the investee arising after the date of acquisition. Entitlements due or received in excess of such surpluses are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.*

***Economic entity** means a group of entities comprising a controlling entity and one or more controlled entities.*

***Non-controlling interest** is the interest in the net assets in a controlled entity not attributable, directly or indirectly, to a controlling entity.*

***Separate financial statements** are those presented by a controlling entity, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct interest in the net assets rather than on the basis of the reported results and net assets of the investees.*

Terms defined in other Standards of GRAP are used in this Standard with the same meaning as in those other Standards.

Consolidated and separate financial statements

.07 A controlling entity or its controlled entity may be an investor in an associate or a venturer in a jointly controlled entity. In such cases, consolidated financial statements prepared and presented in accordance with this Standard are also prepared so as to comply with the Standards of GRAP on *Investments in Associates* (GRAP 7) and *Interests in Joint Ventures* (GRAP 8).

.08 For an entity described in paragraph .07, separate financial statements are those prepared and presented in addition to the financial statements referred to in paragraph .07. Separate financial statements need not be appended to, or accompany, those statements.

.09 The financial statements of an entity that does not have a controlled entity, associate or venturer's interest in a jointly controlled entity are not separate financial statements.

.10 A controlling entity that is exempted in accordance with paragraph .15 from presenting consolidated financial statements may present separate financial statements as its only financial statements.

Economic entity

.11 The term "economic entity" is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities.

.12 Other terms sometimes used to refer to an economic entity include "administrative entity", "financial entity", "consolidated entity" and "group."

.13 An economic entity may include entities with both social policy and commercial objectives. For example, a government housing department may be an economic entity that includes entities that provide housing for a nominal charge, as well as entities that provide accommodation on a commercial basis.

Presentation of consolidated financial statements

.14 A controlling entity, other than a controlling entity described in paragraph .15 shall present consolidated financial statements in which it consolidates its investments in controlled entities in accordance with this Standard.

.15 A controlling entity need not present consolidated financial statements if, and only if:

(a) the controlling entity is:

(i) itself a wholly-owned controlled entity, and users of such financial statements are unlikely to exist or their information needs are met by its controlling entity's consolidated financial statements; or

(ii) a partially-owned controlled entity of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the controlling entity not presenting consolidated financial statements;

(b) the controlling entity's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

(c) 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

(d) the ultimate or any intermediate controlling entity of the controlling entity produces consolidated financial statements available for public use that comply with Standards of GRAP.

.16 Many controlling entities that are either wholly owned or partially owned, represent key sectors or activities of government, and the purpose of this Standard is not to exempt such entities from preparing consolidated financial statements. In this situation the information needs of certain users may not be served by the consolidated financial statements at a whole-of-government level alone.

.17 In some instances, an economic entity will include a number of intermediate controlling entities. For example, whilst a department may be the ultimate controlling entity, there may be intermediate controlling entities at a public entity level. Accountability and reporting requirements may specify which entities are required (or exempted from the requirement) to prepare consolidated financial statements. Where there is no specific reporting requirement for an intermediate controlling entity to prepare consolidated financial statements for which users are likely to exist, intermediate controlling entities are to prepare and publish consolidated financial statements.

.18 A controlling entity that elects in accordance with paragraph .15 not to present consolidated financial statements, and presents only separate financial statements, complies with paragraphs .59 to .67.

Scope of consolidated financial statements

.19 Consolidated financial statements shall include all controlled entities of the controlling entity.

.20 A controlled entity is not excluded from consolidation simply because the investor is a venture capital organisation, mutual fund, unit trust, or similar entity.

.21 A controlled entity is not excluded from consolidation because its activities are dissimilar to those of the other entities within the economic entity, for example, the consolidation of GBEs with entities in the budget sector. Relevant information is provided by consolidating such controlled entities and disclosing additional information in the consolidated financial statements about the different activities of the controlled entities. For example, the disclosures required by the Standard of GRAP on *Segment Reporting* help to explain the significance of different activities within the economic entity.

.22 A controlling entity loses control when it loses the power to govern the financial and operating policies of an investee so as to obtain benefit from its activities. The loss of control can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when a controlled entity becomes subject to the control of another sphere of government, a court, administrator or regulator. It could also occur as a result of a binding arrangement.

Establishing control of another entity for financial reporting purposes

.23 Whether an entity controls another entity for financial reporting purposes is a matter of judgement based on the definition of control in this Standard and the particular circumstances of each case. That is, consideration needs to be given to the nature of the relationship between the two entities. In particular, the two elements of the definition of control in this Standard need to be considered. These are the power element (the power to govern the financial and operating policies of another entity) and the benefit element (which represents the ability of the controlling entity to benefit from the activities of the other entity).

.24 For the purposes of establishing control, the controlling entity needs to benefit from the activities of the other entity. For example, an entity may benefit from the activities of another entity in terms of a distribution of its surpluses (such as a dividend or similar distribution) and is exposed to the risk of a potential loss. In other cases, an entity may not obtain any financial benefits from the other entity, but may benefit from its ability to direct the other entity to work with it to achieve its objectives. It may also be possible for an entity to derive both financial and non-financial benefits from the activities of another entity. For example, a GBE may provide a controlling entity with a dividend and also enable it to achieve some of its social policy objectives.

.25 Applying the definition of control, as defined in this Standard, may result in the identification of other entities that are also controlled entities, in addition to those identified by complying with the applicable legislation.

.26 Under the Constitution of the Republic of South Africa, 1996, national, provincial and local governments have constitutional independence. However, in certain circumstances, for example, through national legislation, an entity in one sphere of government may intervene in the administration of an entity in another sphere of government, if that other entity cannot and does not fulfil its executive obligation. For example, an entity in the national sphere of government may intervene in the administration of a municipality if that municipality is unable to fulfil its constitutional or legislative mandate. During this period, circumstances must be evaluated to establish whether or not the intervention meets the definition of control for consolidation purposes in terms of this Standard.

Control for financial reporting purposes

.27 For the purposes of financial reporting, control stems from an entity's power to govern the financial and operating policies of another entity and does not necessarily require an entity to hold a majority shareholding or other interest in the net assets of another entity. The power to control must be presently exercisable. That is, the entity must already have had this power conferred upon it by legislation or some formal agreement. The power to control is not presently exercisable if it requires changing legislation or renegotiating agreements in order to be effective. This should be distinguished from the fact that the existence of the power to control another entity is not dependent upon the probability or likelihood of that power being exercised.

.28 Similarly, the existence of control does not require an entity to have responsibility for the management of (or involvement in) the day-to-day operations of the other entity. In many cases, an entity may only exercise its power to control another entity where there is a breach or revocation of an agreement between the controlled entity and its controlling entity.

.29 For example, a government department may have an ownership interest in an entity, which operates as a GBE. That entity is allowed to operate autonomously and does not rely on the government for funding but has raised capital through significant borrowings that are guaranteed by the government. The entity has not paid a dividend to the government department for several years. The government department has the power to appoint and remove a majority of the members of the management of that entity. The government department has never exercised the power to remove members of the management and would be reluctant to do so because of sensitivity in the electorate regarding the previous government's involvement in the operation of the entity. In this case, the power to control is presently exercisable but under the existing relationship between the controlled entity and controlling entity, an event has not occurred to warrant the controlling entity exercising its powers over the controlled entity. Accordingly, control exists because the power to control is sufficient even though the controlling entity may choose not to exercise that power.

.30 An entity may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar instruments that have the potential, if exercised or converted, to give the entity voting power or reduce another party's voting power over the financial and operating policies of another entity (potential voting rights). The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by another entity, are considered when assessing whether an entity has the power to govern the financial and operating policies of another entity. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.

.31 In assessing whether potential voting rights contribute to control, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other binding arrangements whether considered individually or in combination) that affect potential voting rights, except the intention of management and the financial ability to exercise or convert such rights.

.32 The existence of separate legislative powers does not, of itself, preclude an entity from being controlled by another entity. For example, Statistics South Africa has statutory powers to operate independently of the government. That is, Statistics South Africa may have the power to obtain information and report on its findings without recourse to government or any other body. The existence of control does not require an entity to have responsibility over the day-to-day operations of another entity or the manner in which professional functions are performed by the entity.

.33 The power of one entity to govern decision-making in relation to the financial and operating policies of another entity is insufficient, in itself, to ensure the existence of control as defined in this Standard. The controlling entity needs to be able to govern decision-making so as to be able to benefit from its activities, for example, by enabling the other entity to operate with it as part of an economic entity in pursuing its objectives. This will have the effect of excluding from the definitions of a “controlling entity” and “controlled entity” relationships that do not extend beyond, for instance, that of a liquidator and the entity being liquidated, and would normally exclude a lender and borrower relationship. Similarly, a trustee whose relationship with a trust does not extend beyond the normal responsibilities of a trustee would not be considered to control the trust for the purposes of this Standard.

Regulatory and purchase power

.34 Governments and their agencies have the power to regulate the behaviour of many entities by use of their sovereign or legislative powers. Regulatory and purchase powers do not constitute control for the purposes of financial reporting. To ensure that the financial statements of entities include only those resources that they control and can benefit from, the meaning of control for the purposes of this Standard does not extend to:

(a) the power of the legislature to establish the regulatory framework within which entities operate and to impose conditions or sanctions on their operations. Such power does not constitute control by an entity of the assets deployed by these entities. For example, a pollution control authority may have the power to close down the operations of entities that are not complying with environmental regulations. However, this power does not constitute control because the pollution control authority only has the power to regulate; or

(b) entities that are economically dependent on an entity. That is, where an entity retains discretion as to whether it will take funding from, or does business with an entity, that entity has the ultimate power to govern its own financial or operating policies, and accordingly is not controlled by the entity. For example, a government department may be able to influence the financial and operating policies of an entity that is dependent on it for funding (such as a non-profit organisation) or a profit-oriented entity that is economically dependent on business from it. Accordingly, the government department has some power as a purchaser but not to govern the entity’s financial and operating policies.

Determining whether control exists for financial reporting purposes

.35 Entities may create other entities to achieve some of their objectives. In some cases it may be clear that an entity is controlled, and hence should be consolidated. In other cases it may not be clear. Paragraphs .36 and .37 provide guidance to help determine whether or not control exists for financial reporting purposes.

.36 In examining the relationship between two entities, control is presumed to exist when at least one of the following power conditions and one of the following benefit conditions exists, unless there is clear evidence of control being held by another entity.

Power conditions

(a) the entity has, directly or indirectly through controlled entities, ownership of a majority voting interest in the other entity;

(b) the entity has the power, either granted by or exercised within existing legislation, to appoint or remove a majority of the members of the board of directors or equivalent governing body and control of the other entity is by that board or body;

(c) the entity has the power to cast, or regulate the casting of, a majority of the votes that are likely to be cast at a general meeting of the other entity; and/or

(d) the entity has the power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or by that body.

Benefit conditions

(a) the entity has the power to dissolve the other entity and obtain a significant level of the residual economic benefits or bear significant obligations. For example the benefit condition may be met if an entity had responsibility for the residual liabilities of another entity; or

(b) the entity has the power to extract distributions of assets from the other entity, and/or may be liable for certain obligations of the other entity.

Power indicators

.37 When one or more of the circumstances listed in paragraph .36 does not exist, the following factors are likely, either individually or collectively, to be indicative of the existence of control:

(a) the entity has the ability to veto operating and capital budgets of the other entity;

(b) the entity has the ability to veto, overrule or modify governing body decisions of the other entity;

(c) the entity has the ability to approve the hiring, reassignment and removal of key personnel of the other entity;

(d) the mandate of the other entity is established and limited by legislation;

(e) the entity holds a "golden share" (or equivalent) in the other entity that confers rights to govern the financial and operating policies of that other entity;

(f) the entity has the ability to establish or amend the mission or mandate of the entity;

(g) the entity has the ability to establish borrowing or investment limits or restrict the entity's investments; and/or

(h) the entity has the ability to restrict the revenue-generating capacity of the entity, notably the sources of revenue.

Benefit indicators

(a) the entity holds direct or indirect title to the net assets of the other entity with an ongoing right to access these;

(b) the entity has a right to a significant level of the net assets of the other entity in the event of liquidation or in a distribution other than liquidation;

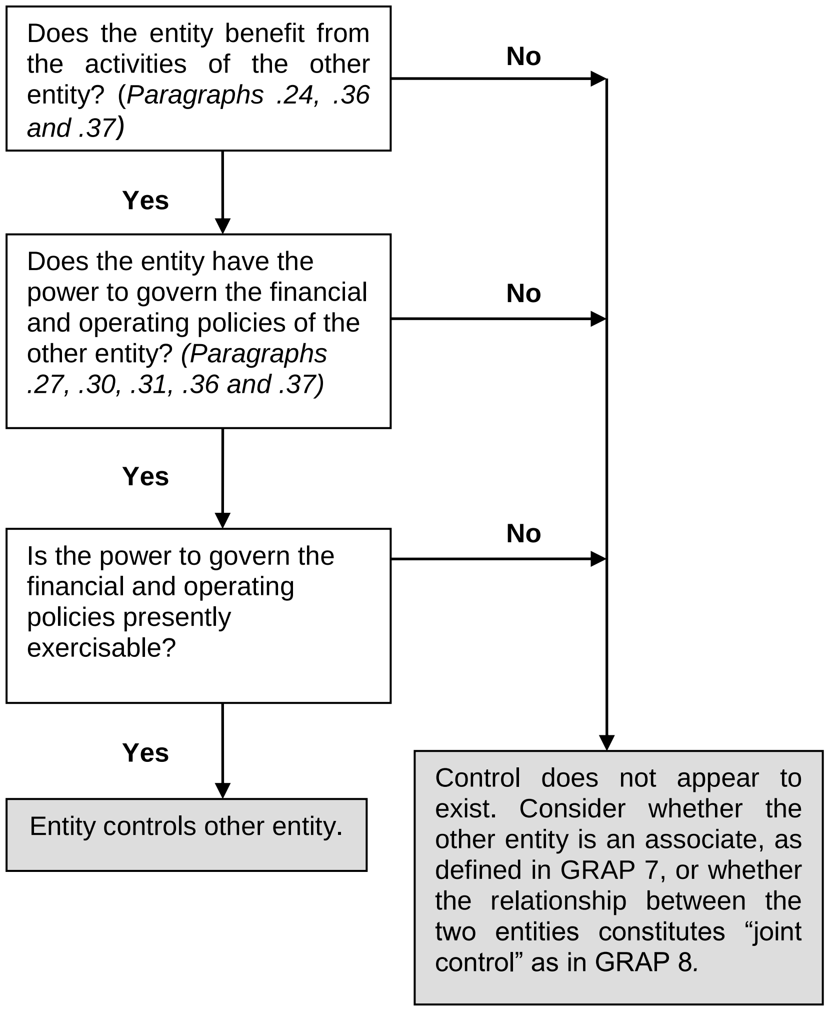
(c) the entity is able to direct the other entity to co-operate with it in achieving its objectives;

(d) the entity is exposed to the residual liabilities of the other entity; or

(e) the entity has ongoing access to the assets of an entity, has the ability to direct the ongoing use of those assets or has ongoing responsibility for deficits.

.38 The following diagram indicates the basic steps involved in establishing control of another entity. It should be read in conjunction with paragraphs .23 to .37.

Establishing control of another entity for financial reporting purposes



Consolidation procedures

.39 In preparing consolidated financial statements, an entity combines the financial statements of the controlling entity and its controlled entities line-by-line by adding together like items of assets, liabilities, net assets, revenue and expenses. In order that the consolidated financial statements present financial information about the economic entity as that of a single entity, the following steps are then taken:

(a) the carrying amount of the controlling entity's investment in each controlled entity and the controlling entity's portion of the net assets of each controlled entity are eliminated (see GRAP 105 and GRAP 106, which provide guidance on the treatment of the difference between the consideration paid (if any) and the assets acquired and liabilities assumed);

(b) non-controlling interests in the surplus or deficit of consolidated controlled entities for the reporting period are identified; and

(c) non-controlling interests in the net assets of consolidated controlled entities are identified separately from the controlling entity's interest in the net assets in them. Non-controlling interests in the net assets consist of:

(i) the amount of those non-controlling interests at the date of the original transfer of functions calculated in accordance with GRAP 105 and GRAP 106; and

(ii) the non-controlling interest's share of changes in net assets since the date of the transfer of functions.

.40 When potential voting rights exist, the proportions of surplus or deficit and changes in net assets allocated to the controlling entity and non-controlling interests are determined on the basis of present ownership interests and do not reflect the possible exercise or conversion of potential voting rights.

.41 Balances, transactions, revenues and expenses between entities within the economic entity shall be eliminated in full.

.42 Balances and transactions between entities within the economic entity, including revenues from sales, and transfers and revenues recognised consequent to an appropriation or other budgetary authority, expenses and dividends or similar distributions, are eliminated in full. Surpluses and deficits resulting from transactions within the economic entity that are recognised in assets, such as inventory and fixed assets, are eliminated in full. Deficits within the economic entity may indicate an impairment that requires recognition in the consolidated financial statements. The International Accounting Standard® on *Income Taxes* applies to temporary differences that arise from the elimination of surpluses and deficits resulting from transactions within the economic entity (where applicable).

.43 The financial statements of the controlling entity and its controlled entities used in the preparation of the consolidated financial statements shall be prepared as of the same date. When the end of the reporting period of the controlling entity is different from that of a controlled entity, the controlled entity prepares, for consolidation purposes, additional financial statements as of the same date as the financial statements of the controlling entity unless it is impracticable to do so.

.44 When, in accordance with paragraph .43, the financial statements of a controlled entity used in the preparation of consolidated financial statements are prepared as of a date different from that of the controlling entity, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the controlling entity's financial statements. In any case, the difference between the end of the reporting period of the controlled entity and

that of the controlling entity shall be no more than three months. The length of the reporting periods and any difference between the ends of the reporting periods shall be the same from period to period.

.45 Consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances.

.46 If a member of the economic entity uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

.47 The revenue and expenses of a controlled entity are included in the consolidated financial statements from the transfer date or acquisition date as defined in GRAP 105 or GRAP 106. The revenue and expenses of the controlled entity shall be based on the values of the assets and liabilities recognised in the controlling entity's financial statements at the acquisition date. For example, depreciation expense recognised in the statement of financial performance after the acquisition date shall be based on the value of the related depreciable assets recognised in the consolidated financial statements at the acquisition date. The revenue and expenses of a controlled entity are included in the consolidated financial statements until the date when the controlling entity ceases to control the controlled entity.

.48 Non-controlling interests shall be presented in the consolidated statement of financial position separately from the controlling entity's interests in net assets.

.49 Surplus or deficit of the statement of financial performance is attributed to the owners of the controlling entity and to the non-controlling interests. Total surplus or deficit is attributed to the owners of the controlling entity and to the non-controlling interests even if this results in non-controlling interests having a negative balance.

.50 If a controlled entity has outstanding cumulative preference shares that are classified as net assets and are held by non-controlling interests, the controlling entity computes its share of surplus or deficit after adjusting for the controlled entity's dividends on such shares, whether or not dividends have been declared.

.51 Changes in a controlling entity's ownership interest in a controlled entity that do not result in a loss of control are accounted for as transactions that affect net assets (i.e. transactions with owners in their capacity as owners).

.52 In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the controlled entity. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognised directly in net assets and attributed to the owners of the controlling entity.

Loss of control

.53 A controlling entity can lose control of a controlled entity with or without a change in absolute or relative ownership levels. This could occur, for example, when a controlled entity becomes subject to the control of another entity or another sphere of government (see paragraph .22), or when a liquidator is appointed. It also could occur as a result of a binding arrangement.

.54 A controlling entity might lose control of a controlled entity in two or more arrangements (transactions). However, sometimes circumstances indicate that the multiple arrangements should be accounted for as a single transaction. In determining whether to account for the arrangements as a single transaction, a controlling entity shall consider all of the terms and conditions of the arrangement and their economic effects. One or more of the following may indicate that the controlling entity should account for the multiple arrangement as a single transaction:

(a) they are entered into at the same time or in contemplation of each other;

(b) they form a single transaction designed to achieve an overall economic effect;

(c) the occurrence of one arrangement is dependent on the occurrence of at least one other arrangement; and/or

(d) one arrangement considered on its own is not economically justified, but it is economically justified when considered together with other arrangements. An example is when one disposal of shares is priced below market and is compensated for by a subsequent disposal priced above market.

.55 If a controlling entity loses control of a controlled entity, it:

(a) derecognises the assets and liabilities of the controlled entity at their carrying amounts at the date when control is lost;

(b) derecognises the carrying amount of any non-controlling interests in the former controlled entity at the date when control is lost (including any components in the statement of financial performance attributable to them);

(c) recognises:

(i) the fair value of the consideration received (if any), from the transaction, event or circumstances that resulted in the loss of control; and

(ii) if the transaction that resulted in the loss of control involves a distribution of residual interests of the controlled entity to owners in their capacity as owners, that distribution;

(d) recognises any investment retained in the former controlled entity at its fair value at the date when control is lost;

(e) ***reclassifies to surplus or deficit, or transfers directly to accumulated surplus or deficit, if required in accordance with other Standards of GRAP, the amounts identified in paragraph .56; and***

(f) ***recognises any resulting difference as a gain or loss in surplus or deficit (in accordance with GRAP 106) or in accumulated surplus or deficit (see paragraph .39 in GRAP 105) attributable to the controlling entity.***

.56 If a controlling entity loses control of a controlled entity, the controlling entity shall account for all amounts recognised in the statement of financial performance in relation to that controlled entity on the same basis as would be required if the controlling entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in the statement of financial performance is required to be reclassified to surplus of deficit on the disposal of the related assets or liabilities, the controlling entity reclassifies the gain or loss from net assets to surplus or deficit (as a reclassification adjustment) when it loses control of the controlled entity. For example, if a revaluation surplus previously recognised in the statement of changes in net assets is required to be transferred directly to accumulated surplus or deficit on the disposal of the asset, the controlling entity transfers the revaluation surplus directly to accumulated surplus and deficit when it loses control of the controlled entity.

.57 On the loss of control of a controlled entity, any investment retained in the former controlled entity and any amounts owed by or to the former controlled entity shall be accounted for in accordance with other Standards of GRAP from the date when control is lost.

.58 The fair value of any investment retained in the former controlled entity at the date when control is lost shall be regarded as the fair value on initial recognition of a financial asset in accordance with the Standard of GRAP on *Financial Instruments* (GRAP 104) or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Accounting for investments in controlled entities, jointly controlled entities and associates in separate financial statements

.59 When an entity prepares separate financial statements, it shall account for investments in controlled entities, jointly controlled entities and associates either:

(a) ***at cost; or***

(b) ***in accordance with GRAP 104.***

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

.60 An entity shall recognise a dividend or similar distribution from a controlled entity, jointly controlled entity or associate in surplus or deficit in its separate financial statements when its right to receive the dividend or similar distribution is established.

.61 When a controlling entity reorganises 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 by issuing equity instruments in exchange for existing equity instruments of 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 transfer of functions undertaken between entities under common control and transfer of functions undertaken between entities not under common control; and

(c) the owners of the original controlling entity before the transfer of functions undertaken between entities under common control or transfer of functions undertaken between entities not under common control 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 transfer of functions undertaken between entities under common control or transfer of functions undertaken between entities not under common control

and the new controlling entity accounts for its investment in the original controlling entity in accordance with paragraph .59(a) in its separate financial statements, the new controlling entity shall measure cost at the carrying amount of its share of the net asset items shown in the separate financial statements of the original controlling entity at the date of the transfer of functions undertaken between entities under common control or transfer of functions undertaken between entities not under common control.

.62 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 .61. The requirements in paragraph .61 apply equally to such transfer of functions. In such cases, references to 'original controlling entity' and 'original economic entity' are to the 'original entity'.

.63 This Standard does not mandate which entities produce separate financial statements available for public use. Paragraphs .59 and .64 to .67 apply when an entity prepares separate financial statements that comply with Standards of GRAP. The entity also produces consolidated financial statements available for public use as required by paragraph .14, unless the exemption provided in paragraph .15 is applicable.

.64 Investments in controlled entities, jointly controlled entities and associates that are accounted for in accordance with GRAP 104 in the consolidated financial

statements shall be accounted for in the same way in the investor's separate financial statements.

Disclosure

.65 The following disclosures shall be made in consolidated financial statements:

(a) the name of the controlled entity and the nature of the relationship between the controlling entity and a controlled entity when the controlling entity does not own, directly or indirectly through controlled entities, more than half of the voting power;

(b) the name of the controlled entity and the reasons why the ownership, directly or indirectly through controlled entities, of more than half of the voting or potential voting power of an investee does not constitute control;

(c) the reporting date of the financial statements of a controlled entity when such financial statements are used to prepare consolidated financial statements and are as of a reporting date or for a period that is different from that of the controlling entity, and the reason for using a different reporting date or period;

(d) the fact that the reporting date of a controlled entity's financial statements changed from that used for consolidation purposes in previous years and the effect of the change on the consolidated financial statements, if appropriate;

(e) the nature and extent of any significant restrictions (e.g. resulting from borrowing arrangements or regulatory requirements such as exchange controls) on the ability of controlled entities to transfer funds to the controlling entity in the form of cash dividends or similar distributions or to repay loans or advances;

(f) a list of significant controlled entities;

(g) gains and losses on sale of shares or other dilutions in controlled entities by the investor;

(h) fees charged for administration of the controlled entity; and

(i) where adjustments to eliminate the effect of different accounting policies cannot be made, the nature of the differences.

.66 When separate financial statements are prepared for a controlling entity that, in accordance with paragraph .15, elects not to prepare consolidated financial statements, those separate financial statements shall disclose:

(a) the fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name and country of incorporation or residence of the entity whose consolidated financial

statements that comply with Standards of GRAP have been produced for public use; the address where those consolidated financial statements are obtainable;

(b) a list of significant investments in controlled entities, jointly controlled entities and associates, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held; and

(c) a description of the method used to account for the investments listed under (b).

.67 When a controlling entity (other than a controlling entity covered by paragraph .66), venturer with an interest in a jointly controlled entity or an investor in an associate prepares separate financial statements, those separate financial statements shall disclose:

(a) the fact that the financial statements are separate financial statements and the reasons why those statements are prepared if not required by law;

(b) a list of significant investments in controlled entities, jointly controlled entities and associates, including the name, nature of activities, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held; and

(c) a description of the method used to account for the investments listed under (b);

and shall identify the financial statements prepared in accordance with paragraph .14, GRAP 7 and GRAP 8 to which they relate.

.68 When a controlled entity is acquired exclusively with a view to its subsequent disposal, the following disclosures shall be made in the notes of the separate financial statements:

(a) the name of the controlled entity and the rationale for its acquisition;

(b) a description of the intended disposal, including the expected date of the sale or transfer; and

(c) the carrying values of the assets and liabilities that will be affected by the disposal of the controlled entity.

Transitional provisions

Initial adoption of the Standards of GRAP

.69 The transitional provisions to be applied by entities on the initial adoption of this Standard are prescribed in a directive(s). The provisions of this Standard should be read in conjunction with each applicable directive.

Amendments to the Standards of GRAP

.70 The definition of "minority interest" has been amended to "non-controlling interest", and paragraph .60 was added by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after 1 April 2015. If an entity elects to apply these amendments earlier, it shall disclose this fact.

.71 Paragraph .59 was amended by Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after 1 April 2015 from the date at which it first applied the Standard of GRAP on Discontinued Operations. If an entity elects to apply these amendments earlier, it shall disclose this fact.

.72 GRAP 105, GRAP 106 and the Standard of GRAP on Mergers (GRAP 107) amended paragraphs .03, .39, .47 to .50 and added paragraphs .51 to .58 and .61 to .62. An entity shall apply these amendments when it applies GRAP 105, GRAP 106 and GRAP 107.

.73 Any other amendments to this Standard shall be applied retrospectively in accordance with the Standard of GRAP on Accounting Policies, Changes in Estimates and Errors.

Effective date

Initial adoption of the Standards of GRAP

.74 An entity shall apply this Standard for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999, as amended.

Entities already applying Standards of GRAP

.75 An entity shall apply amendments to this Standard for annual financial statements covering periods beginning on or after 1 April 2015. Earlier application is encouraged. If an entity applies these amendments for a period beginning before 1 April 2015, it shall disclose that fact.

Withdrawal of the *Standard of GRAP on Consolidated and Separate Financial Statements* (2005)

.76 This Standard supersedes the Standard of GRAP on *Consolidated and Separate Financial Statements* issued in 2005.

Comparison with the International Public Sector Accounting Standard on *Consolidated and Separate Financial Statements* (December 2006)

This Standard is drawn primarily from the International Public Sector Accounting Standard on *Consolidated and Separate Financial Statements* (IPSAS 6). The main differences between this Standard and IPSAS 6 are as follows:

- An objective paragraph has been included in this Standard, whereas IPSAS 6 does not contain one.
- The definition of separate financial statements is slightly different to IPSAS 6 in how this definition refers to an interest in the net assets of an entity.
- IPSAS 6 describes the residual of total assets after deducting total liabilities as "net assets/equity" whereas this Standard refers to "net assets".
- Certain terminology may have been amended from the original text of IPSAS 6 e.g. reference to a contractual arrangement has been amended to a binding arrangement when considering potential voting rights.
- IPSAS 6 excludes those investments from consolidation where control is temporary and the investment is to be disposed of in the near future. This Standard requires that they be consolidated and presented and disclosed in accordance with the Standard of GRAP on *Discontinued Operations.*
- This Standard includes explanatory material that identified certain control relationships that may exist in the public sector.
- This Standard incorporates power and benefit indicators in addition to those contained in IPSAS 6. These additional power and benefit indicators were taken from the IPSASB's discussion roundtable document entitled Government Reporting Entity.
- This Standard contains additional disclosure requirements.
- Transitional provisions applicable to this Standard are dealt with differently than in IPSAS 6.