COLLEGE OF ACCOUNTING

FINANCIAL REPORTING | ADVANCED

Video Transcription: Subsidiaries – Part 2: Reduced Shareholdings, Control Maintained and Loss of Control

1. Parent Reduces its Interest in a Subsidiary but Maintains Control

Let's say that A instead reduced its shareholding in B from 80% to 75% by selling shares to the other equity holders of B, for cash. A has not lost control over B. B was a subsidiary before and after this transaction, and A's group financial statements must reflect this. However, A's group financial statements must also reflect that A gave up some equity in B, in exchange for cash. This is the same as saying the non-controlling interest is contributing cash to the group in exchange for additional equity in an entity, in the group. To the extent that the amount received by A differs to the equity it gave up to the non-controlling interest of B, this amount is recognised directly in equity. Think about it – this too is a transaction between the group and owners of the group (the non-controlling interest), in their capacity as owners (of equity in B in this case).

2. Loss of Control

What are the implications if A reduces its shareholding such that it no longer controls B? B was a subsidiary before this transaction, but after the transaction A could be left with no interest (if all the shares are sold), a financial asset (if there is no joint control or significant influence) or a joint venture, or an associate. The group financial statements must appropriately reflect the effects of the change of nature of A's investment in B.

Let's assume that A had an 80% held subsidiary and that A sold all the shares in B, at the start of the current financial year for R10 000. On the date of sale, B's assets amounted to R12 000, its liabilities to R3 000 and the non-controlling interest had a carrying amount of R2 000. In addition, the acquisition of B previously resulted in goodwill of R1 500.

- Before this transaction, B is a subsidiary, which will be consolidated.
- The group financial statements would reflect the loss of control as follows:
- In respect of the sale and the loss of control specifically:

Assets	-	Liabilities	=	Equity			
				Equity holders of parent			NCI
				P/L	OCI	Directly to equity	
+R10 000 (cash received)		-R3 000 (liabilities derecognised)		+R1 500			-R2 000
- R12 000 (assets derecognised)							
-R1 500 (goodwill derecognised)							

- The disposal results in a gain of R1 500.
- In addition, all other effects relating to disposing of the net assets of A, which may be required such as transferring reserves realised on disposal of a revalued item of PPE, etc. must also be reflected in the group financial statements.

Recap and Critical Thinking

- This video summarised the reporting of changes in shareholding in the parent's group financial statements. The examples looked at the parent acquiring or selling shares for cash.
- There are many ways a parent's interest in a subsidiary could change (for example, the subsidiary could issue more shares to the parent but not to the non-controlling interest. Can you think of more?).
- These transactions may or may not result in a change in who controls the subsidiary.
- Irrespective of how the transaction is structured, the overall effect on group assets, liabilities, profit or loss, OCI, equity is the same as dealt with in this video:

This video focused on a parent's interest in a subsidiary. There are a number of issues it did not address, e.g.:

- Other ways a parent's shareholding in a subsidiary could change e.g. the subsidiary issues more shares to the parent only.
- Transactions not for cash.
- Transactions that do not change the parent's interest but do result in the parent gaining, or losing control (for example, shareholder agreements or potential voting rights become substantive).
- Foreign operations.
- Associates and JVs.
- The tax implications.
- The implications for the separate and individual financial statements of the parent and the subsidiary.
- The PFJEs.
- Drafting group AFS.

These are for you think about.