

PBE IPSAS 6 Consolidated and Separate Financial Statements – Differences to NZ IFRS (PBE)

	NZ IAS 27 (PBE)	PBE IPSAS 6	Difference
1	<p>NZ IAS 27 (PBE) requires that when an entity prepares separate financial statements (i.e. parent accounts), investments in subsidiaries, jointly controlled entities and associates are to be accounted for either:</p> <p>(a) at cost; or</p> <p>(b) as a financial instrument in accordance with NZ IAS 39 (PBE) <i>Financial Instruments</i>.</p> <p>NZ IAS 27.38</p>	<p>PBE IPSAS 6 requires that when an entity prepares separate financial statements (i.e. parent accounts), investments in controlled entities, jointly controlled entities and associates are to be accounted for:</p> <p>(a) at cost;</p> <p>(b) using the equity method; or</p> <p>(c) as a financial instrument under PBE IPSAS 29 <i>Financial Instruments: Recognition and Measurement</i>.</p> <p>PBE IPSAS 6.58</p>	<p>In the separate financial statements of the parent, the option of using the equity method is now available when accounting for interests in controlled entities, jointly controlled entities or associates.</p>
2	<p>NZIAS 27 (PBE) requires that the applicable portion of total comprehensive income (including losses) is always allocated to a minority interest even if it results in the minority interest having a deficit balance.</p> <p>NZ IAS 27.28</p>	<p>PBE IPSAS 6 requires that where losses applicable to a minority interest exceed the value of that minority interest in the consolidated entity's balance sheet, the excess is to be allocated against the majority interest (except where the minority has a binding agreement to make an additional investment to cover losses).</p> <p>PB IPSAS 6.56</p>	<p>The value of minority interest shown in the consolidated entity's financial statements may differ from that previously reported under NZ IFRS (PBE).</p>
3	<p>NZ IAS 27 (PBE) states that an entity shall recognise a dividend in the separate financial statements of the parent when the right to receive the dividend is established.</p> <p>NZ IAS 27.38A</p>	<p>PBE IPSAS 6 does not contain guidance on when to recognise a dividend.</p> <p>However, PBE IPSAS 9 <i>Revenue from Exchange Transactions</i> requires that: <i>dividends or similar distributions shall be recognised when the shareholder's or the entity's right to receive payment is established.</i></p>	<p>No change expected in practice, other than noting the different location of the guidance within the PBE suite of standards.</p>

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4	<p>When a parent entity recognises a dividend, the distinction between distributions from pre-acquisition and post acquisition reserves is not required.</p> <p>(The distinction was removed from NZ IFRS in 2008).</p> <p>NZ IAS 27.38A</p>	<p>For investments in subsidiaries, jointly controlled companies and associates <u>measured at cost</u>, IPSAS 6 contains a definition of cost that requires an entity to distinguish between distributions from accumulated reserves after the date of acquisition (i.e. post acquisition reserves), which is treated as a dividend – and distributions from pre-acquisition reserves – which are treated as a reduction in the cost of investment.</p> <p>PBE IPSAS 6.7</p>	<p>Differences in the treatment of distributions (i.e. as dividend income or as a reduction in the cost of an investment) could arise.</p> <p>Note that PBE IPSAS 9 <i>Revenue from Exchange Transactions</i> also contains guidance on accounting for dividend income, including when it is not practicable to identify the dividend portion relating to pre-acquisition reserves. In such a situation the dividend can be treated as income (and not allocated against the initial investment cost). We would expect that where entities encounter such practical difficulties, the guidance in PBE IPSAS 9 is applied.</p>
5	<p>NZ IAS 27 (PBE) prescribes how to account for changes in ownership of a subsidiary without a loss of control, stating that these are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners)</p> <p>NZ IAS 27.30</p>	<p>PBE IPSAS 6 does not provide any guidance on accounting for changes in ownership of a subsidiary without a loss of control.</p>	<p>Guidance on this item is not included in the PBE standards. While this opens the possibility of different accounting treatment, we would not expect any change from NZ IFRS (PBE) in practice.</p>
6	<p>NZ IAS 27 (PBE) prescribes how to account for the loss of control of a subsidiary in detail, including recognising any remaining investment at fair value.</p> <p>NZ IAS 27.34</p>	<p>PBE IPSAS 6 also requires that the remaining investment at the date that an entity ceases to be a controlled entity shall be measured at fair value. However, PBE IPSAS 6 is less prescriptive with respect to accounting treatment than NZ IAS 27 (PBE).</p> <p>PBE IPSAS 6.52.1</p>	<p>Guidance in the PBE standards is less prescriptive for this item. While this opens the possibility of different accounting treatment, we would not expect any change from NZ IFRS (PBE) in practice.</p>

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7	<p>NZ IAS 27 (PBE) provides guidance on how a new parent entity, resulting from a specified group reorganisation, will measure the cost of its investment in the original parent.</p> <p>NZ IAS 27 38B and 38C</p>	<p>PBE IPSAS 6 is silent on accounting requirements for a new parent entity resulting from a specified reorganisation of the group.</p>	<p>Guidance on this item is not included in the PBE standards. While this opens the possibility of different accounting treatment, we would not expect any change from NZ IFRS (PBE) in practice.</p>
8	<p>NZ IAS 27 (PBE) refers to SIC 12 <i>Consolidation – Special Purpose Entities</i> for additional guidance on determining whether an entity controls a special purpose entity.</p> <p>NZ IAS 12.13</p>	<p>PBE IPSAS 6 has integral application guidance on the definition of control in a PBE group. This has been developed by the NZASB based on the guidance in the old GAAP standard FRS 37 <i>Consolidating Investment in Subsidiaries</i>. PBEs have been using this guidance under the NZ IFRS framework because of the cross reference in NZ IAS 27 (PBE) to FRS 37. The PBE integral guidance is intended to maintain status quo and is consistent with SIC 12.</p> <p>PB IPSAS 6 appendix A</p>	<p>No change. The location of the application guidance has changed but is designed to maintain status quo.</p>

