LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA
MALAYSIAN ACCOUNTING STANDARDS BOARD

MASB Standard 11

Consolidated Financial Statements and Investments in Subsidiaries

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The standards, which have been set in bold type, should be read in the context of the background material and implementation guidance in this Standard, and in the context of the Foreword to MASB Standards. MASB Standards are not intended to apply to immaterial items.

Objective

The objective of this MASB Standard is to prescribe the basis for the preparation and presentation of consolidated financial statements for a group of enterprises under the control of the reporting parent. It also prescribes the accounting treatment for investments in subsidiaries in the separate financial statements of the reporting parent. In prescribing the basis of consolidated financial statements, this Standard deals with the grounds as to when a subsidiary should be excluded from consolidation and its prescribed treatment, the consolidation procedures, disposals of subsidiaries, and changes in stake and composition of a group.

Scope

1. **This Standard should be applied in the preparation and presentation of consolidated financial statements for a group of enterprises under the control of a parent.**

2. **This Standard should also be applied in accounting for investments in subsidiaries in a parent's separate financial statements.**

3. This Standard supersedes MASB Approved Accounting Standard IAS 27, Consolidated Financial Statements and Accounting for Investments in Subsidiaries, issued previously by the Malaysian professional accountancy bodies.

4. Consolidated financial statements are encompassed by the term "financial statements" included in the Foreword to MASB Standards. Therefore, consolidated financial statements are prepared in accordance with MASB Standards.

5. This Standard does not deal with:

   (a) methods of accounting for business combinations and their effects on consolidation, including goodwill arising on a business combination (see MASB ED #, Business Combinations);

   (b) accounting for investments in associates (see MASB 12, Investments in Associates); and

   (c) accounting for investments in joint ventures (see MASB ED 14, Financial Reporting of Interests in Joint Ventures).

Definitions

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

Consolidated financial statements are the financial statements of a group presented as those of a single enterprise.

Control (for the purpose of this Standard) is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Group is a parent and all its subsidiaries.

Minority interest is that part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, by the parent.

Parent is an enterprise that has one or more subsidiaries.

Subsidiary is an enterprise that is controlled by another enterprise (known as the parent).

Presentation of Consolidated Financial Statements

7. A parent, other than a parent mentioned in paragraph 8, should present consolidated financial statements.

8. A parent that is a wholly owned subsidiary of another parent incorporated in Malaysia need not present consolidated financial statements. Such a parent should disclose the reasons why consolidated financial statements have not been presented together with the bases on which subsidiaries are accounted for in its separate financial statements. The name and registered office of its parent

that publishes consolidated financial statements should also be disclosed.

9. Users of the financial statements of a parent are usually concerned with, and need to be informed about, the financial position, results of operations and changes in financial position of the group as a whole. This need is served by consolidated financial statements, which present financial information about the group as that of a single enterprise without regard for the legal boundaries of the separate legal entities.

10. A parent company that is itself a wholly owned subsidiary of another parent company incorporated in Malaysia need not present consolidated financial statements since such statements may not be required by its parent company and the needs of other users may be best served by the consolidated financial statements of its parent. Sub-paragraph 5(4)(a) of the Ninth Schedule of the Companies Act 1965 (the Act) exempts only a wholly owned parent company from the requirement to present consolidated financial statements, provided the other parent enterprise is a company incorporated under the Act. A wholly owned subsidiary of a foreign enterprise is not exempted from the requirement to present consolidated financial statements.

Scope of Consolidated Financial Statements

11. A parent which issues consolidated financial statements should consolidate all subsidiaries, foreign and domestic, regardless of the extent of ownership interests, other than those referred to in paragraph 15.

12. The consolidated financial statements include all enterprises that are controlled by the parent, other than those subsidiaries excluded for the reasons set out in paragraph 15. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than one half of the voting power of an enterprise unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control also exists even when the parent owns one half or less of the voting power of an enterprise when there is:

    (a) power over more than one half of the voting rights by virtue of an agreement with other investors;

    (b) power to govern the financial and operating policies of the enterprise under a statute or an agreement;

(c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or

(d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body.

13. In the case of companies incorporated under the Act, an investee-company shall be deemed a subsidiary if the investor company holds more than one half of the issued share capital of the investee-company (excluding any part thereof which consists of preference shares). In practice, however, where more than one company is thereby identified as a parent of one investee-company no more than one of those parents can have control as defined in paragraph 6.

14. Where the Act identifies more than one company as the parent of one investee-company, it is likely that they have shared control and therefore, their interests in the investee-company are in effect interests in a joint venture and should be treated in accordance with MASB ED 14, Financial Reporting of Interests in Joint Ventures. Alternatively, one or more of the companies identified under the Act as a parent may exercise a non-controlling but significant influence over the investee-company, in which case it would be more appropriate to treat the investee-company as an associate in accordance with MASB 12, Investments in Associates. In effect, in those rare circumstances where the definition of a deemed subsidiary under subsection 5(1)(a)(iii) of the Act is in conflict with the criterion of control for an enterprise to be regarded as a subsidiary following the definition in paragraph 6 of this Standard, the test of true and fair under subsection 169(14) of the Act should be applied in the preparation of the financial statements. This is consistent with the overall considerations for fair presentation in MASB 1, Presentation of Financial Statements.

15. A subsidiary should be excluded from consolidation when:

(a) control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future and the subsidiary has not previously been consolidated in the parent's consolidated financial statements; or

(b) it operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent.

Subsidiaries excluded on the grounds of paragraphs 15(a) and 15(b) should be accounted for as if they are investments in accordance with MASB Approved Accounting Standard IAS 25, Accounting for Investments.

16. When a subsidiary is acquired and held exclusively with a view to subsequent resale, it is evident that the parent intends to hold the interest only for the short-term, such as when the interest was acquired as a result of the enforcement of a security. An investment held exclusively with a view to its subsequent disposal in the near future for this purpose, implies an interest for which a purchaser has been identified or is being sought and is reasonably expected to be disposed of within approximately one year of its date of acquisition (or beyond that) if, at the date the financial statements are authorised, the terms of the sale have been agreed and the process of disposing that interest is substantially complete. Accordingly, in the period in which the acquisition occurs, it is inappropriate to include the subsidiary in the consolidated financial statements. The exclusion provided for in paragraph 15(a) applies only to subsidiaries that have never formed a continuing part of the group activities and have not previously been included in the consolidated financial statements of the group. A subsidiary acquired under such rare circumstance should normally be classified as a current investment and carried at the lower of cost and net realisable value.

17. Severe long-term restrictions justify exclusion of a subsidiary from consolidation only where the effects of those restrictions result in the parent having no effective control over the assets and management of the subsidiary. For example, when a subsidiary is subject to a compulsory liquidation proceeding, control over that subsidiary may have passed to a designated liquidator, with the effect that severe long-term restrictions are in force. Severe long-term restrictions should be identified by their effects in practice rather than by the way in which the restrictions are imposed. Thus, a subsidiary should not be excluded merely because restrictions are threatened or because another party has the power to impose them, unless such threats or the existence of such a power has a severe and restricting effect in practice in the long term on the rights of the parent. For example, exchange controls imposed on a foreign subsidiary would not normally justify exclusion of the subsidiary from consolidation. However, where the exchange controls imposed on the foreign subsidiary are so severe that they significantly impair the ability of the parent to control the transfer of funds, the subsidiary should be excluded from consolidation. A subsidiary excluded on the ground of severe long-term restrictions should be treated as an investment in accordance with MASB Approved Accounting Standard IAS 25, Accounting for Investments. The initial carrying amount, calculated

using the equity method, as at the date the restrictions came into effect should be regarded as cost thereafter. However, the carrying amount should be reviewed subsequently and adjusted for any impairment loss.

18. Sometimes it is argued that a subsidiary should be excluded from consolidation when its business activities are dissimilar from those of the other enterprises within the group. Exclusion on these grounds is not justified because better information is provided by consolidating such subsidiaries and disclosing additional information in the consolidated financial statements about the different business activities of subsidiaries. Accordingly, the usefulness of information provided by consolidating subsidiaries with dissimilar activities is enhanced if segmental information is provided to explain the different business activities of the group as per the requirements of MASB Approved Accounting Standard IAS 14, Reporting Financial Information by Segment.

Consolidation Procedures

19. In preparing consolidated financial statements, the financial statements of the parent and its subsidiaries are combined on a line-by-line basis by adding together like items of assets, liabilities, equity, income and expenses. In order that the consolidated financial statements present financial information about the group as that of a single enterprise, the following steps are then taken:

    (a) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary are eliminated (see MASB ED #, Business Combinations and MASB ED #, Goodwill);

    (b) minority interests in the net income of consolidated subsidiaries for the reporting period are identified and adjusted against the income of the group in order to arrive at the net income attributable to the owners of the parent; and

    (c) minority interests in the net assets of consolidated subsidiaries are identified and presented in the consolidated balance sheet separately from liabilities and the parent shareholders' equity. Minority interests in the net assets consist of:

        (i) the amount at the date of the original combination calculated in accordance with MASB ED #, Business Combinations; and

        (ii) the minority's share of movements in equity since the date of the combination.

20. Taxes payable by either the parent or its subsidiaries on distribution to the parent of the profits retained in subsidiaries are accounted for in accordance with MASB DSOP 5, Income Taxes.

21. Intragroup balances and intragroup transactions, and resulting unrealised profits should be eliminated in full. Unrealised losses resulting from intragroup transactions should also be eliminated unless cost cannot be recovered.

22. Intragroup balances and intragroup transactions, including sales, expenses and dividends, are eliminated in full. Unrealised profits resulting from intragroup transactions that are included in the carrying amount of assets, such as inventory and fixed assets, are eliminated in full. Unrealised losses resulting from intragroup transactions that are deducted in arriving at the carrying amount of assets are also eliminated unless cost cannot be recovered. Hence, unrealised losses should not be eliminated to the extent that the transaction provides evidence of an impairment of the asset transferred. Temporary differences that arise from the elimination of unrealised profits and losses resulting from intragroup transactions are dealt with in accordance with MASB DSOP 5, Income Taxes.

23. The eliminations of intragroup transactions and the resulting unrealised profits or losses in paragraph 21 apply, regardless of the directions of the transactions. However, in allocating the group's profits and net assets to minority interests in accordance with paragraphs 19(b) and 19(c) respectively, the resulting unrealised profits or losses should be allocated to minority interests based on their respective interests in the subsidiaries which have recorded the unrealised profits or losses.

24. The financial statements used in the consolidation should be drawn up to the same reporting date. When the financial statements used in the consolidation are drawn up to different reporting dates, that fact should be disclosed for each consolidated subsidiary together with the disclosure requirements of paragraph 47(a). In addition, adjustments should be made for the effects of significant transactions or other events that occur between those dates and the date of the parent's financial statements. In any case, the difference between reporting dates should be no more than three months.

25. The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements are usually drawn up to the same date. Section 168 of the Companies Act 1965 requires

that the financial years of subsidiary companies must coincide with the financial year of the parent company and this requirement should be complied with within two years after any corporation becomes a subsidiary of the parent, unless approval has been obtained from the Registrar of Companies authorising any subsidiary to continue to have, or to adopt, a financial year which does not coincide with that of the parent company. When the reporting dates are different, the subsidiary often prepares, for consolidation purposes, statements as at the same date as the group. When it is impracticable to do this, financial statements drawn up to different reporting dates may be used provided the difference is no greater than three months. The consistency principle dictates that the length of the reporting periods and any difference in the reporting dates should be the same from period to period.

26. Consolidated financial statements should be prepared using uniform accounting policies for like transactions and other events in similar circumstances. If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.

27. In many cases, if a member of the group 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 when they are used in preparing the consolidated financial statements.

Acquisition or Merger and Disposal of Subsidiary

28. The results of operations of a subsidiary should be included in the consolidated financial statements based on the method of accounting prescribed in the relevant MASB Standard on Business Combinations*. The results of operations of a subsidiary disposed of should be included in the consolidated financial statements up to the date of disposal.

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* The relevant MASB Standard is the proposed Standard currently issued as MASB ED #, Business Combination.

29. In an acquisition, the results of operations of a subsidiary are included in the consolidated financial statements as from the date of acquisition, which is the date on which control of the acquired subsidiary is effectively transferred to the buyer, in accordance with MASB ED #, Business Combinations. In a merger, the results of operations of a subsidiary are consolidated as if the subsidiary has always been part of the group (see MASB ED #, Business Combinations for details of the prescribed treatments).

30. The results of operations of a subsidiary disposed of are included in the consolidated income statement until the date of disposal which is the date on which the parent ceases to have control of the subsidiary. A subsidiary should continue to be consolidated even if its net assets are negative or the parent has the intention to either liquidate or dispose of the subsidiary in the foreseeable future. The difference between the proceeds from the disposal of the subsidiary and the carrying amount of its assets less liabilities, together with any goodwill, as of the date of disposal is recognised in the consolidated income statement as the gain or loss on the disposal of the subsidiary.

31. In order to ensure the comparability of the financial statements from one accounting period to the next, supplementary information is often provided about the effect of the acquisition or merger and disposal of subsidiaries on the financial position at the reporting date and the results for the reporting period and on the corresponding amounts for the preceding period.

32. An investment in an enterprise should be accounted for in accordance with MASB Approved Accounting Standard IAS 25, Accounting for Investments, from the date that it ceases to fall within the definition of a subsidiary and does not become an associate as defined in MASB 12, Investments in Associates.

33. The carrying amount of the investment at the date that it ceases to be a subsidiary is regarded as cost thereafter. This carrying amount should include any share of previously consolidated post-acquisition results attributable to the interests that are retained by the investor.

Minority Interests

34. Minority interests should be presented in the consolidated balance sheet separately from liabilities and the parent shareholders' equity. Minority interests in the income of the group should also be separately presented.

35. The measurement of minority interests should be based on the prescribed standards in MASB ED #, Business Combinations. The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are charged against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, the majority interest is allocated all such profits until the minority's share of losses previously absorbed by the majority has been recovered.

36. If a subsidiary has outstanding cumulative preference shares which are held outside the group, the parent computes its share of profits or losses after adjusting for the subsidiary's preference dividends, whether or not dividends have been declared.

Changes in Stakes and Changes in Composition of a Group

37. When a subsidiary issues new equity shares to minority interests for cash consideration and provided the issue price has been established at fair value, the reduction in the group's interests in the subsidiary should be treated as disposal of equity interests for which the gain or loss should be recognised in the income statement.

38. A group's equity interest in a subsidiary decreases when the subsidiary issues new shares to minority shareholders, when it does not take up its ratable portion of any rights issue of the subsidiary, or when options, warrants and convertibles of the subsidiary have been exercised by minority shareholders. When a reduction in equity interest is evidenced by a cash transaction and provided the price has been established at fair value, the reduction in interest should be treated as a disposal, for which the gain or loss should be recognised in income. For example, a listing of a subsidiary on the stock exchange would normally satisfy the conditions for this treatment because an initial public offer of shares would normally be in cash and the price would have been established at its fair market value. The fair value condition would also be satisfied if the shares have been independently valued by professional valuers. The gain or loss on disposal in such instances should be calculated as the difference between the group's share of net assets immediately before and immediately after the disposal and a ratable portion of goodwill realised, if any.

39. When a group purchases a subsidiary's equity shares from minority interests for cash consideration and provided the purchase price is established at fair value, the accretion of the group's interests in the subsidiary should be treated as purchase of equity interest for which the acquisition method of accounting should be applied.

40. A group's equity interest in a subsidiary increases when the parent, the subsidiary itself, or another subsidiary of the parent, purchases some or all of the shares held by a minority interest. When an accretion of equity interest is evidenced by a cash transaction and provided the price has been established at fair value, the accretion should be treated as an acquisition of additional equity interest, for which the acquisition principles prescribed in MASB ED #, Business Combinations should be applied. For example, a subsidiary's repurchase of its own shares in the open market would normally satisfy the conditions for this treatment because a share repurchase would normally be in cash and the repurchase price would have been established at its fair market value. In other instances, the fair value condition would also be satisfied if the shares have been independently valued by professional valuers. In applying the acquisition principles for the increase in stake, the identifiable assets and liabilities acquired should be adjusted to their fair value, with the resulting difference being attributed to goodwill or negative goodwill. However, fair value adjustment is not required if the difference between fair value and book value is not material.

41. All other changes in stakes and changes in composition of a group which do not meet the standards in paragraph 37 or paragraph 39 should be treated as equity transactions between the group and its majority and minority shareholders. Any difference between the group's share of net assets before and after the change, and any consideration received or paid, should be adjusted to or against group reserves.

42. A group may undertake internal reorganisation or restructuring, such as by transferring down a direct subsidiary to become an indirect subsidiary or vice versa, or by forming a new holding company within the group. When the group reorganisation or restructuring does not change substantially the majority and minority interests respectively, the reorganisation or restructuring would qualify for merger accounting in accordance with MASB ED #, Business Combinations.

43. When the group's and minorities' interests in a subsidiary change substantially as a result of a group reorganisation or restructuring, merger accounting is not appropriate (see MASB ED #, Business Combinations). In such instances and when the conditions of cash and fair value in paragraph 37 or paragraph 39 are not met, it is inappropriate to recognise any gain or loss arising from the change in composition of the group in the income statement. Accordingly, the accretion or dilution of the group's interest should be treated as an equity transaction between the subsidiary and its shareholders. Any difference between the group's share of net assets immediately before and immediately after the change in stake and any consideration received or paid, should be adjusted to or against group reserves.

Investments in Subsidiaries in a Parent's Separate Financial Statements

44. In a parent's separate financial statements, investments in subsidiaries that are included in the consolidated financial statements should be carried at cost or revalued amounts under the parent's accounting policy for long-term investments (see MASB Approved Accounting Standard IAS 25, Accounting for Investments).

45. Investments in subsidiaries that are excluded from consolidation should be accounted for in the parent's separate financial statements as if they are investments in accordance with MASB Approved Accounting Standard IAS 25, Accounting for Investments.

46. In some jurisdictions, the equity method may be applied to account for investments in subsidiaries in a parent's separate financial statements. In Malaysia, however, the separate financial statements of a parent as a legal entity should account for investments in subsidiaries using the cost method, by recognising only dividends received and receivable from the subsidiaries. The investments in subsidiaries may be carried at revalued amounts in accordance with MASB Approved Accounting Standard IAS 25, Accounting for Investments, and in the case of public companies, in accordance with the prescribed rules as contained in the Policies and Guidelines on Issue/Offer of Securities issued by the Securities Commission.

Disclosure

47. In addition to those disclosures required by paragraphs 8, 24 and 26, the following disclosures should be made:

(a) in consolidated financial statements a listing of each subsidiary including the name, country of incorporation or residence, the principal activities of, proportion of ownership interest and, if different, proportion of voting power held;

(b) in consolidated financial statements, where applicable:

(i) the reasons for not consolidating a subsidiary;

(ii) the nature of the relationship between the parent and a subsidiary of which the parent does not own, directly or indirectly through subsidiaries, more than one half of the voting power;

(iii) the name of an enterprise in which more than one half of the voting power is owned, directly or indirectly through subsidiaries, but which, because of the absence of control, is not a subsidiary; and

(iv) the effect of the acquisition and disposal of subsidiaries on the financial position at the reporting date, the results for the reporting period and on the corresponding amounts for the preceding period;* and

(c) in the parent's separate financial statements, a description of the method used to account for subsidiaries.

Transitional Provision

48. If the adoption of this MASB Standard constitutes a change in accounting policy, the effects of the new policy should be applied retrospectively, unless it is impracticable to do so. When it is impracticable to do so, this Standard should be applied prospectively and that fact should be disclosed.

Effective Date

49. This MASB Standard becomes operative for financial statements covering periods beginning on or after 1 January 2000. Earlier adoption is encouraged. If an enterprise applies this Standard for financial statements covering periods beginning before 1 January 2000, the enterprise should disclose that fact.

* The corresponding amounts for the preceding period refers to the amounts for the comparative corresponding period presented.

Appendix 1

Compliance with International Accounting Standards

As at the date of issue of this Standard, compliance with this Standard will ensure conformity in all material respects with International Accounting Standard IAS 27, (reformatted 1994) Consolidated Financial Statements and Accounting for Investments in Subsidiaries, except for:

1. In a parent's separate financial statements, IAS 27 requires that investments in subsidiaries that are included in the consolidated financial statements to be either accounted for using the equity method or carried at cost or revalued amounts. This MASB Standard prescribes only the method of cost or revalued amounts for investments in subsidiaries.

2. IAS 27 exempts wholly owned parent or virtually wholly owned parent from the requirement to present consolidated financial statements. This MASB Standard exempts a wholly owned parent from presenting consolidated financial statements only if, a parent itself is a wholly owned subsidiary of another parent incorporated in Malaysia.

3. In the case of companies incorporated under the Companies Act 1965, an investee-company shall be deemed as a subsidiary when a more than 50 % ownership criterion is met. This MASB Standard, nevertheless, requires a rebuttal for the investee-company not to be consolidated on grounds of fair presentation when control does not exist.

4. In addition, MASB 11 includes additional guidance and treatment for changes in stakes and changes in composition of a group.

5. IAS 27 requires investment in subsidiaries excluded from consolidation (see paragraphs 15 and 45), investment that ceases to fall within the definition of subsidiary (see paragraph 32) and investments in subsidiaries that are included in the consolidated financial statements in the parent's separate financial statements (see paragraph 44) to be accounted for in accordance with IAS 39, Financial Instruments: Recognition and Measurement. This MASB Standard currently requires those investments to be accounted for in accordance with MASB Approved Accounting Standard IAS 25, Accounting for Investments.