

**LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA  
MALAYSIAN ACCOUNTING STANDARDS BOARD**

**MFRS Application and Implementation Guide 3**

***Preparation of consolidated financial  
statements for a group which had disposed of  
its only subsidiary during the financial year***

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*MFRS Application and Implementation Guide 3 Preparation of consolidated financial statements for a group which had disposed of its only subsidiary during the financial year* is issued by the MASB in respect of its application in Malaysia.

## **MFRS Application and Implementation Guide 3**

### ***Preparation of consolidated financial statements for a group which had disposed of its only subsidiary during the financial year***

The MFRS Application and Implementation Committee (MAIC) received a request about the requirement of preparing consolidated financial statements for a group which had disposed of its only subsidiary during the financial year.

In the fact pattern described in the request:

An investor had a subsidiary for many years and had been preparing consolidated financial statements. However, during the year ended 31 December 2019, the investor disposed of its only subsidiary on 30 June 2019.

The request asked whether the investor would need to prepare consolidated financial statements for the year ended 31 December 2019.

The MAIC observed that in accordance with Paragraph 20 of MFRS 10 *Consolidated Financial Statements* an investor shall begin to consolidate an investee from the date the investor obtains control of the investee and cease consolidation when the investor loses control of the investee. Paragraph 25 of MFRS 10 further states that if a parent loses control of a subsidiary, the parent:

- (a) derecognises the assets and liabilities of the former subsidiary from the consolidated statement of financial position.
- (b) recognises any investment retained in the former subsidiary at its fair value when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant MFRSs. That fair value shall be regarded as the fair value on initial recognition of a financial asset in accordance with MFRS 9 *Financial Instruments* or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.
- (c) recognises the gain or loss associated with the loss of control attributable to the former controlling interest.

Paragraph B88 of MFRS 10 explains that an entity includes the income and expenses of a subsidiary in the consolidated financial statements from the date it gains control until the date when the entity ceases to control the subsidiary. Income and expenses of the subsidiary are based on the amounts of the assets and liabilities recognised in the consolidated financial statements at the acquisition date. For example, depreciation expense recognised in the consolidated statement of comprehensive income after the acquisition date is based on the fair values of the related depreciable assets recognised in the consolidated financial statements at the acquisition date.

The MAIC also observed that Section 249(2) of the *Companies Act 2016* states that the annual consolidated financial statements for a financial year shall:

- (a) give a true and fair view of the financial position of the company and all its subsidiaries which are dealt with in the consolidated financial statements as a whole at the end of the financial year; and

- (b) give a true and fair view of the financial performance of the company and all its subsidiaries which are dealt with in the consolidated financial statements as a whole for the financial year.

### **1. Consolidated Financial Statements**

Based on the fact pattern, consolidated financial statements must be prepared by the investor for the year ended 31 December 2019 because the investor was a parent during the reporting period, even though it is no longer a parent at the end of the reporting period. The investor will include the income and expenses of the only subsidiary in the consolidated statement of profit or loss and other comprehensive income until the date when the investor ceases to control the subsidiary.

In accordance with Paragraph 10 of MFRS 101 *Presentation of Financial Statements*, a complete set of financial statements comprises, among other items, a statement of financial position as at the end of the period, a statement of profit or loss and other comprehensive income for the period, a statement of changes in equity for the period, a statement of cash flows for the period, notes, comprising significant accounting policies and other explanatory information, and comparative information in respect of the preceding period. Hence, the consolidated financial statements prepared by the investor for the financial year ended 31 December 2019 must comprise a complete set of financial statements, which includes comparative information for the preceding period (financial year ended 31 December 2018).

### **2. Consolidated Statement of Financial Position**

The investor will need to derecognise the assets and liabilities of the former subsidiary from the consolidated statement of financial position and recognise the gain or loss associated with the loss of control attributable to the investor's former controlling interest. Because the investor derecognises the assets and liabilities of the subsidiary on 30 June 2019, the consolidated statement of financial position as at 31 December 2019 will not reflect the assets and liabilities of the subsidiary. A consolidated statement of financial position for the financial year ended 31 December 2019 will need to be prepared to comply with the requirement of Paragraph 10 of MFRS 101 of presenting a complete set of financial statements. In addition, the investor will need to present the consolidated statement of financial position for the financial year ended 31 December 2018 as comparative information for the preceding period. As at 31 December 2018, the investor still controlled the subsidiary and presented a consolidated statement of financial position for that financial year (Paragraphs 10 and 38 of MFRS 101).

### **3. Consolidated Statement of Profit or Loss and Other Comprehensive Income**

The investor will include the income and expenses of the subsidiary in the consolidated statement of profit or loss and other comprehensive income until 30 June 2019, the date when the investor ceases to control the subsidiary (Paragraph B88 of MFRS 10).

In addition, the investor shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be

required if the investor had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the investor shall reclassify the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary on 30 June 2019. If a revaluation surplus previously recognised in other comprehensive income would be transferred directly to retained earnings on the disposal of the asset, the investor shall transfer the revaluation surplus directly to retained earnings when it loses control of the subsidiary on 30 June 2019 (Paragraph B99 of MFRS 10).

#### **4. Consolidated Statement of Changes in Equity**

The investor shall present a consolidated statement of changes in equity which includes, the following, among other information, total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests and for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately (as a minimum) disclosing changes resulting from profit or loss, other comprehensive income and any distribution of shares of the subsidiary to owners in their capacity as owners from the transaction, event or circumstances that resulted in the loss of control (Paragraphs 106(a) and (d) of MFRS 101 and Paragraph B98(b) of MFRS 10).

#### **5. Consolidated Statement of Cash Flows**

As required under Paragraphs 39 and 40 of MFRS 107 *Statement of Cash Flows*, the cash flows arising from losing control of the only subsidiary shall be presented separately and classified as investing activities in the consolidated statement of cash flows for the year ended 31 December 2019. The investor shall disclose in respect of losing control of the only subsidiary during the period each of the following:

- (a) the total consideration received;
- (b) the portion of the consideration consisting of cash and cash equivalents;
- (c) the amount of cash and cash equivalents in the subsidiary over which control is lost; and
- (d) the amount of the assets and liabilities other than cash or cash equivalents in the subsidiary over which control is lost, summarised by each major category.