

Separate Financial Statements (IAS 27)

Table of Contents

1. Overview and objective of IAS 27
2. Scope and key definitions
3. When and why separate financial statements are prepared
4. Measurement of investments in separate financial statements
5. Dividends in separate financial statements
6. Changes in ownership interests and loss of control
7. Disclosure requirements in separate financial statements
8. Common pitfalls and exam-focus areas
9. Integrated illustrative example
10. Summary and exam-style checkpoints
11. Multiple-Choice Questions (with Answers)
12. Comprehensive Question Bank (with Solutions)

1. Overview and objective of IAS 27

IAS 27 *Separate Financial Statements* sets out how an entity accounts for investments in subsidiaries, joint ventures and associates **when it presents separate financial statements**—that is, financial statements where those investments are not consolidated or equity-accounted in the usual way.

Objective:

- **Prescribe accounting and disclosure requirements** for investments in subsidiaries, joint ventures and associates in separate financial statements.
- Ensure consistency with other IFRS standards while allowing specific measurement choices for these investments.

IAS 27 does **not** tell you *who* must prepare separate financial statements; it only applies **if** an entity chooses (or is required by law) to prepare them in accordance with IFRS.

2. Scope and key definitions

2.1 Scope of IAS 27

IAS 27 applies **only** to the accounting for investments in:

- **Subsidiaries**
- **Joint ventures**
- **Associates**

when an entity **elects or is required** to present separate financial statements that comply with IFRS.

It does **not**:

- Mandate which entities must produce separate financial statements.
- Change the requirements for consolidated financial statements (those are in IFRS 10).
- Change the requirements for equity-accounted financial statements (those are in IAS 28).

2.2 Key definitions

Consolidated financial statements

- **Definition:** Financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a **single economic entity**.

Separate financial statements

- **Definition:** Financial statements presented by an entity in which it accounts for investments in subsidiaries, joint ventures and associates **either at cost, in accordance with IFRS 9, or using the equity method** (IAS 28), instead of consolidating them.

Important clarifications:

- **Not separate FS:**
 - The financial statements of an entity that **has no subsidiaries, associates or joint ventures** are *not* “separate financial statements” under IAS 27—they are simply that entity’s general-purpose financial statements.
- **Separate FS in addition to other FS:**
 - Separate financial statements are often presented **in addition to** consolidated financial statements or in addition to financial statements where investments are accounted for using the equity method.
- **Separate FS as the only FS:**
 - Certain entities exempted from consolidation (IFRS 10) or from applying the equity method (IAS 28), and certain **investment entities**, may present separate financial statements as their **only** financial statements.

3. When and why separate financial statements are prepared

3.1 Typical situations

Entities may present separate financial statements for various reasons:

- **Legal or regulatory requirements:**
 - Some jurisdictions require a parent company to present its own financial statements (often for dividend, capital maintenance or legal reserve purposes) separate from consolidated financial statements.
- **Information needs of owners or creditors:**
 - Shareholders may want to see the parent’s own performance and position, excluding subsidiaries, especially for dividend decisions.
- **Exemptions from consolidation or equity method:**
 - An entity exempted from consolidation under IFRS 10 or from applying the equity method under IAS 28 may present separate financial statements as its only set of IFRS financial statements.
- **Investment entities:**
 - Investment entities that measure all subsidiaries at fair value through profit or loss (instead of consolidating them) present separate financial statements as their only financial statements.

3.2 Relationship with other standards

IFRS 10 — Consolidated Financial Statements

- Governs when and how a parent consolidates subsidiaries.
- IAS 27 applies **only** to the parent's separate financial statements, not to the consolidated ones.

IAS 28 — Investments in Associates and Joint Ventures

- Governs the **equity method** in financial statements where associates and joint ventures are equity-accounted.
- IAS 27 allows the equity method as one of the measurement options in separate financial statements.

IFRS 9 — Financial Instruments

- Governs measurement at fair value or amortised cost for financial assets.
- IAS 27 allows investments in subsidiaries, joint ventures and associates to be measured in accordance with IFRS 9 in separate financial statements.

4. Measurement of investments in separate financial statements

4.1 Core measurement rule

In separate financial statements, an entity must account for investments in subsidiaries, joint ventures and associates using **one of the following bases**:

1. **At cost**
2. **In accordance with IFRS 9** (typically fair value through profit or loss or fair value through OCI)
3. **Using the equity method** as described in IAS 28

Consistency requirement:

- The **same accounting policy** must be applied **for each category of investments** (subsidiaries, joint ventures, associates).
 - Example: All subsidiaries at cost; all associates using equity method; all joint ventures at fair value under IFRS 9.
 - You cannot, for example, measure some subsidiaries at cost and others at fair value under IFRS 9, unless they are in different categories (e.g. some are investment entity holdings subject to IFRS 9).

- The investment is classified as FVPL under IFRS 9.
- Initial cost: R500 000.
- Year-end fair value: R620 000.
- **Initial recognition:**
 - Dr Financial asset — Investment in Associate (FVPL) R500 000
 - Cr Bank R500 000
- **Year-end remeasurement:**
 - Dr Financial asset — Investment in Associate (FVPL) R120 000
 - Cr Fair value gain (P/L) R120 000

4.4 Measurement using the equity method

Following the 2014 amendments, IAS 27 allows the **equity method** in separate financial statements as an option.

Under the equity method (IAS 28):

- The investment is initially recognised at **cost**.
- The carrying amount is increased or decreased to recognise the investor's **share of the investee's profit or loss and other comprehensive income**.
- Dividends received **reduce** the carrying amount of the investment (not recognised as dividend income in profit or loss).

Example — Associate measured using equity method in separate FS

- **Scenario:**
 - Parent Co owns 30% of Associate Co and applies the equity method in its separate financial statements.
 - Initial cost: R300 000.
 - Year 1: Associate Co reports profit for the year (after tax) of R200 000 and pays dividends of R50 000 (→ parent's share: 30%).
- **Initial recognition:**

○ Dr Investment in Associate	R300 000	
○ Cr Bank		R300 000
- **Share of profit (Year 1):**
 - Parent's share: $R200\,000 \times 30\% = R60\,000$

○ Dr Investment in Associate	R60 000	
○ Cr Share of profit of Associate (P/L)		R60 000
- **Dividends received (Year 1):**
 - Parent's share: $R50\,000 \times 30\% = R15\,000$

○ Dr Bank	R15 000	
○ Cr Investment in Associate		R15 000
- **Closing carrying amount:**
 - $R300\,000 + R60\,000 - R15\,000 = R345\,000$

4.5 Held-for-sale classification (IFRS 5)

If investments in subsidiaries, joint ventures or associates are classified as **held for sale** and are measured at **cost or using the equity method**, the measurement requirements of **IFRS 5 — Non-current Assets Held for Sale and Discontinued Operations** apply.

- The investment is measured at the **lower of**:
 - Carrying amount, and
 - Fair value less costs to sell.

5. Dividends in separate financial statements

5.1 General rule

When investments are accounted for **at cost or in accordance with IFRS 9**, **dividend income** from subsidiaries, joint ventures and associates is recognised in **profit or loss** when the entity's **right to receive the dividend is established**.

- This is usually the date when the dividend is **declared**, and the shareholder list is finalised.

5.2 Exception when using equity method

When the **equity method** is used:

- Dividends received **do not** go to profit or loss as dividend income.
- Instead, they **reduce the carrying amount** of the investment.
- The investor's share of the investee's profit or loss is already recognised in profit or loss through the equity method.

5.3 Example — Dividend under different measurement bases

Scenario:

- Parent Co owns 100% of Subsidiary Co.
- Subsidiary declares a dividend of R200 000.
- Parent Co's separate financial statements measure the investment:

(a) At cost

- **Recognition of dividend:**
 - Dr Bank R200 000
 - Cr Dividend income (P/L) R200 000

(b) At fair value (IFRS 9, FVPL)

- **Recognition of dividend:**

- Dr Bank R200 000
- Cr Dividend income (P/L) R200 000
- Fair value changes are recognised separately in profit or loss.

(c) Using equity method

- **Recognition of dividend:**
 - Dr Bank R200 000
 - Cr Investment in Subsidiary R200 000
- No dividend income is recognised; the carrying amount of the investment decreases.

6. Changes in ownership interests and loss of control

Although IAS 27 focuses on separate financial statements, changes in ownership interests and loss of control are still relevant because they affect the **classification and measurement** of investments.

6.1 Loss of control of a subsidiary

When a parent **loses control** of a subsidiary (IFRS 10):

- In consolidated financial statements, the parent derecognises the subsidiary's assets and liabilities and recognises any retained interest at fair value.
- In **separate financial statements**, the parent:
 - Reclassifies the investment from "subsidiary" to "associate", "joint venture" or "financial asset" depending on the new relationship.
 - Applies the chosen measurement basis for that category (cost, IFRS 9 or equity method).

Example — Loss of control and retained interest

- **Scenario:**
 - Parent Co owns 80% of Subsidiary Co (measured at cost in separate FS).
 - Parent sells 50% of its interest and now holds 30%.
 - The 30% interest gives significant influence, so it becomes an **associate**.
- **Separate FS impact:**
 - The carrying amount of the investment in Subsidiary Co becomes the cost of the investment in Associate Co.
 - Parent Co now applies its chosen policy for associates (e.g. equity method or IFRS 9).

6.2 Changes without loss of control

If the parent's ownership interest in a subsidiary changes but **control is retained**:

- In consolidated financial statements, such changes are treated as equity transactions.

- In separate financial statements, the investment continues to be measured using the chosen basis (cost, IFRS 9 or equity method).
- **Any additional consideration paid or received adjusts the carrying amount of the investment.**

7. Disclosure requirements in separate financial statements

7.1 General disclosure principle

Separate financial statements must comply with the **disclosure requirements of other IFRS standards** (e.g. IFRS 7, IFRS 12, IAS 1, IAS 36 and IFRS 18), except where IAS 27 provides specific guidance.

7.2 Specific IAS 27 disclosures

IAS 27 requires disclosures that help users understand:

- **Nature of the relationship** between the parent and its subsidiaries, associates and joint ventures.
- **Accounting policies** used for investments in each category (cost, IFRS 9, equity method).
- **Reasons** why separate financial statements are the **only** financial statements (if applicable).
- **Details of significant investments**, including:
 - Name of the investee
 - Country of incorporation or residence
 - Proportion of ownership interest and, if different, proportion of voting rights
 - Whether the investee is a subsidiary, associate or joint venture

Where separate financial statements are the **only** set of financial statements prepared, additional disclosures are required to compensate for the absence of consolidated information.

7.3 Link with IFRS 12 — Disclosure of interests in other entities

IFRS 12 requires extensive disclosures about interests in subsidiaries, joint arrangements and associates, including:

- Significant judgements and assumptions in determining control or significant influence.
- Restrictions on the ability to transfer funds within the group.
- Summarised financial information of material subsidiaries, associates and joint ventures.

These disclosures are relevant even when the entity presents **only separate financial statements**, to ensure users understand the nature and risks of the entity's interests in other entities.

8. Common pitfalls and exam-focus areas

8.1 Misidentifying “separate financial statements”

Pitfall:

- Treating the financial statements of an entity with **no subsidiaries, associates or joint ventures** as “separate financial statements” under IAS 27.

Correction:

- Those are simply the entity’s **general-purpose financial statements**; IAS 27 does not apply.

8.2 Inconsistent measurement policies

Pitfall:

- Using **different measurement bases** for investments within the same category (e.g. some subsidiaries at cost, others at fair value under IFRS 9) without a clear category distinction.

Correction:

- The **same accounting policy** must be applied **consistently** for each category of investments (subsidiaries, associates, joint ventures).

8.3 Incorrect treatment of dividends under equity method

Pitfall:

- Recognising dividends as income in profit or loss when the equity method is used in separate financial statements.

Correction:

- Under the equity method, dividends **reduce the carrying amount** of the investment; they are **not** recognised as dividend income.

8.4 Ignoring IFRS 5 for held-for-sale investments

Pitfall:

- Continuing to measure investments at cost or equity method without applying IFRS 5 when they are classified as held for sale.

Correction:

- Apply IFRS 5: measure at the **lower of carrying amount and fair value less costs to sell**.

9. Integrated illustrative example

9.1 Scenario setup

Parent Co prepares:

- **Consolidated financial statements** under IFRS 10.
- **Separate financial statements** under IAS 27.

Investments:

1. **Subsidiary A** — 100% owned
2. **Subsidiary B** — 80% owned
3. **Associate C** — 30% owned
4. **Joint Venture D** — 50% owned

Parent Co's policy in separate financial statements:

- Subsidiaries: **Cost**
- Associates: **Equity method**
- Joint ventures: **IFRS 9 (FVPL)**

9.2 Initial recognition

Subsidiary A

- [illegible]

Subsidiary B

- [illegible]

Associate C

- Cost (say): R600 000
- Entry:

9.4 Separate statement of financial position (extract)

At year-end, Parent Co's separate financial statements show:

- **Investments in subsidiaries (cost):**
 - Subsidiary A: R2 000 000
 - Subsidiary B: R1 200 000
- **Investment in associate (equity method):**
 - Associate C: R672 000
- **Financial asset — JV D (FVPL):**
 - R950 000

These amounts differ from the consolidated financial statements, where subsidiaries are consolidated and associates/joint ventures are equity-accounted at group level.

10. Summary and exam-style checkpoints

Key points to remember:

- **IAS 27 applies only when separate financial statements are prepared**—it does not govern consolidated financial statements.
- **Separate financial statements** are those where investments in subsidiaries, joint ventures and associates are measured at **cost, IFRS 9 or equity method**, not consolidated.
- The **same measurement basis** must be applied consistently for each category of investments.
- **Dividends:**
 - At cost or IFRS 9 → recognised as income in profit or loss when the right to receive arises.
 - Equity method → dividends reduce the carrying amount of the investment.
- **Held-for-sale investments** measured at cost or equity method must follow **IFRS 5**.
- Separate financial statements must include **clear disclosures** about the nature of relationships, measurement bases and reasons if they are the **only** financial statements.

11. Multiple-Choice Questions (with Answers)

1. What is the primary purpose of IAS 27?

- A. To prescribe consolidation procedures
- B. To prescribe accounting for investments in subsidiaries, associates, and joint ventures in separate financial statements
- C. To define control
- D. To prescribe equity accounting

➤ **Answer: B**

2. Separate financial statements are:

- A. The same as consolidated financial statements
- B. Financial statements where investments are consolidated
- C. Financial statements where investments are measured at cost, IFRS 9, or equity method
- D. Only prepared by investment entities

➤ **Answer: C**

3. Which of the following measurement bases is *not* permitted under IAS 27 for investments in subsidiaries?

- A. Cost
- B. Equity method
- C. Fair value under IFRS 9
- D. Proportionate consolidation

➤ **Answer: D**

4. When using the equity method in separate financial statements, dividends received from an associate are:

- A. Recognised as income
- B. Ignored
- C. Deducted from the carrying amount of the investment
- D. Added to the carrying amount of the investment

➤ **Answer: C**

5. If an entity measures its subsidiaries at cost in separate financial statements, dividends received are:

- A. Recognised in profit or loss
- B. Deducted from the investment
- C. Recognised in OCI
- D. Ignored

➤ **Answer: A**

6. IAS 27 requires that measurement bases must be applied:

- A. Differently for each subsidiary
- B. Consistently for each category of investments
- C. Only to subsidiaries
- D. Only to associates

➤ **Answer: B**

7. If an investment in a subsidiary is classified as held for sale, IAS 27 requires the entity to apply:

- A. IFRS 9
- B. IFRS 10
- C. IFRS 5
- D. IAS 36 only

➤ **Answer: C**

8. Which standard governs consolidation procedures?

- A. IFRS 9
- B. IFRS 10
- C. IAS 28
- D. IFRS 12

➤ **Answer: B**

9. Under IAS 27, the financial statements of an entity with *no* subsidiaries, associates, or joint ventures are:

- A. Separate financial statements
- B. Consolidated financial statements
- C. General-purpose financial statements
- D. Equity-accounted financial statements

➤ **Answer: C**

10. When an entity loses control of a subsidiary, the retained interest in separate financial statements is measured:

- A. Using consolidation
- B. Using proportionate consolidation
- C. Using the measurement basis applicable to its new category
- D. Using the cost model only

➤ **Answer: C**

11. Investment entities typically measure their subsidiaries in separate financial statements using:

- A. Consolidation
- B. Cost

- C. Equity method
- D. Fair value through profit or loss

➤ **Answer: D**

12. Dividends received from a joint venture measured at FVPL under IFRS 9 are recognised:

- A. In profit or loss
- B. In OCI
- C. As a reduction of the investment
- D. Not recognised

➤ **Answer: A**

13. Which of the following is *not* required to be disclosed in separate financial statements?

- A. Nature of the relationship with investees
- B. Measurement basis used
- C. Summarised financial information of subsidiaries
- D. Ownership interests

➤ **Answer: C** (*Summarised financial information is required under IFRS 12, not IAS 27.*)

14. Under IAS 27, cost of an investment includes:

- A. Only the purchase price
- B. Purchase price plus directly attributable transaction costs
- C. Purchase price minus transaction costs
- D. Fair value adjustments

➤ **Answer: B**

15. If an entity applies IFRS 9 to its associates in separate financial statements, changes in fair value are recognised:

- A. In OCI only
- B. In profit or loss or OCI, depending on IFRS 9 classification
- C. As adjustments to the investment carrying amount
- D. Not recognised

➤ **Answer: B**

16. When using the equity method, the investor's share of the associate's profit:

- A. Is ignored
- B. Increases the carrying amount of the investment
- C. Decreases the carrying amount
- D. Is recognised only when dividends are paid

➤ **Answer: B**

17. IAS 27 applies to:

- A. Consolidated financial statements
- B. Combined financial statements
- C. Separate financial statements
- D. Interim financial statements only

➤ **Answer: C**

18. If a parent changes its ownership interest in a subsidiary but retains control, in separate financial statements the change is:

- A. Treated as an equity transaction
- B. Reflected by adjusting the investment carrying amount
- C. Ignored
- D. Recognised as a gain or loss

➤ **Answer: B**

19. Which standard provides disclosure requirements for interests in other entities, supplementing IAS 27?

- A. IFRS 10
- B. IFRS 12
- C. IAS 28
- D. IFRS 3

➤ **Answer: B**

20. Under IAS 27, an entity may choose different measurement bases for:

- A. Each individual investment
- B. Each category of investments
- C. Each reporting period
- D. Each subsidiary only

➤ **Answer: B**

12. Comprehensive Question Bank (with Solutions)

SECTION A — Multiple-Choice Questions (MCQs)

1. IAS 27 applies to:

- A. Consolidated financial statements
- B. Separate financial statements
- C. Combined financial statements
- D. Interim financial statements only

➤ **Answer: B**

2. Separate financial statements measure investments in subsidiaries using:

- A. Consolidation
- B. Proportionate consolidation
- C. Cost, IFRS 9, or equity method
- D. Fair value through OCI only

➤ **Answer: C**

3. Dividends received from a subsidiary measured at cost are recognised:

- A. In profit or loss
- B. As a reduction of the investment
- C. In OCI
- D. Not recognised

➤ **Answer: A**

4. Under the equity method, dividends received:

- A. Increase the investment
- B. Reduce the investment
- C. Are recognised as income
- D. Are ignored

➤ **Answer: B**

5. Measurement bases must be applied:

- A. Differently for each subsidiary
- B. Consistently for each category
- C. Only to subsidiaries
- D. Only to associates

➤ **Answer: B**

6. IFRS 5 applies to investments measured at cost or equity method when:

- A. They are impaired
- B. They are held for sale
- C. They are revalued
- D. They are consolidated

➤ **Answer: B**

7. Which standard governs consolidation?

- A. IAS 27
- B. IFRS 10
- C. IAS 28
- D. IFRS 12

➤ **Answer: B**

8. Separate financial statements of an entity with no subsidiaries or associates are:

- A. Separate financial statements
- B. Consolidated financial statements
- C. General-purpose financial statements
- D. Equity-accounted financial statements

➤ **Answer: C**

9. Investment entities measure subsidiaries in separate financial statements using:

- A. Consolidation
- B. Cost
- C. Equity method
- D. Fair value through profit or loss

➤ **Answer: D**

10. If control is lost, the retained interest is measured:

- A. Using consolidation
- B. Using cost only
- C. Using the measurement basis applicable to its new category
- D. Using proportionate consolidation

➤ **Answer: C**

11. Dividends from an associate measured at FVPL are recognised:

- A. In profit or loss
- B. In OCI
- C. As a reduction of the investment
- D. Not recognised

➤ **Answer: A**

12. Cost of an investment includes:

- A. Purchase price only
- B. Purchase price plus transaction costs
- C. Purchase price minus transaction costs
- D. Fair value adjustments

➤ **Answer: B**

13. Fair value changes under IFRS 9 are recognised:

- A. In profit or loss or OCI, depending on classification
- B. As adjustments to the investment
- C. Not recognised
- D. Only when dividends are paid

➤ **Answer: A**

14. IAS 27 requires disclosure of:

- A. Summarised financial information of subsidiaries
- B. Nature of relationships and measurement bases
- C. Consolidation procedures
- D. Group goodwill

➤ **Answer: B**

15. When using the equity method, the investor's share of profit:

- A. Is ignored
- B. Increases the investment
- C. Decreases the investment
- D. Is recognised only when dividends are paid

➤ **Answer: B**

16. IAS 27 allows different measurement bases for:

- A. Each individual investment
- B. Each category of investments
- C. Each reporting period
- D. Each subsidiary only

➤ **Answer: B**

17. A parent that retains control after changing ownership interest:

- A. Recognises a gain or loss
- B. Consolidates only the change
- C. Ignores the change
- D. Adjusts the investment carrying amount

➤ **Answer: D**

18. IFRS 12 supplements IAS 27 by requiring:

- A. Consolidation
- B. Disclosure of interests in other entities
- C. Equity accounting
- D. Fair value measurement

➤ **Answer: B**

19. Dividends from a subsidiary measured under IFRS 9 FVPL:

- A. Are recognised in profit or loss
- B. Reduce the investment
- C. Are recognised in OCI
- D. Are ignored

➤ **Answer: A**

20. IAS 27 applies when an entity:

- A. Consolidates subsidiaries
- B. Presents separate financial statements
- C. Applies proportionate consolidation
- D. Applies IFRS 3

➤ **Answer: B**

SECTION B — Short-Form Conceptual Questions

1. Define separate financial statements.

Answer: Financial statements where investments in subsidiaries, associates, and joint ventures are measured at cost, IFRS 9, or equity method, rather than consolidated.

2. Name the three permitted measurement bases under IAS 27.

Answer: Cost, IFRS 9, equity method.

3. Explain how dividends are treated under the equity method.

Answer: Dividends reduce the carrying amount of the investment.

4. What triggers IFRS 5 application under IAS 27?

Answer: Classification of the investment as held for sale.

5. What is the consistency requirement?

Answer: The same measurement basis must be applied to all investments within a category.

6. Why might a parent present separate financial statements?

Answer: Legal requirements, dividend decisions, or because it is an investment entity.

7. What happens in separate financial statements when control is lost?

Answer: The investment is reclassified and measured according to its new category.

8. What disclosures are required under IAS 27?

Answer: Nature of relationships, measurement bases, ownership interests.

9. How are fair value changes treated under IFRS 9 FVPL?

Answer: Recognised in profit or loss.

10. What is the difference between consolidated and separate financial statements?

Answer: Consolidated FS present the group as one “entity”; separate FS do not consolidate investments but present the parent entity’s own performance, financial position and cash flows.

SECTION C — Calculation / Journal-Entry Questions

1. Parent buys Subsidiary for R1,000,000. Measured at cost. Record the initial entry.

Answer:

➤ Dr Investment in Subsidiary	1,000,000	
➤ Cr Bank		1,000,000

2. Subsidiary declares dividend of R120,000. Measured at cost.

Answer:

➤ Dr Bank	120,000	
➤ Cr Dividend income		120,000

3. Associate profit = R300,000. Parent owns 30%. Equity method.

Answer: Share = 90,000 (30% x 300,000)

➤ Dr Investment	90,000	
➤ Cr Share of profit		90,000

4. Associate dividend = R40,000. Parent owns 30%.

Answer: Share = 12,000 (30% x 40,000)

➤ Dr Bank	12,000	
➤ Cr Investment		12,000

5. Joint venture (JV) measured at FVPL. Opening FV = R500,000. Closing FV = R620,000.

Answer: Gain = 120,000 (620,000 – 500,000)

➤ Dr Investment	120,000	
➤ Cr FV gain (P/L)		120,000

6. Subsidiary measured at cost shows impairment indicator. Recoverable amount = R700,000. Carrying amount = R900,000.

Answer: Impairment = 200,000 (900,000 – 700,000)

➤ Dr Impairment loss	200,000	
➤ Cr Investment		200,000

7. Parent loses control. Investment carrying amount = R1,000,000. Retained interest becomes associate measured using equity method.

Answer: Reclassify:

- Dr Investment in Associate 1,000,000
- Cr Investment in Subsidiary 1,000,000

8. JV dividend = R50,000. Parent uses FVPL.

Answer:

- Dr Bank 50,000
- Cr Dividend income 50,000

9. Subsidiary measured at cost. Additional shares purchased for R200,000.

Answer:

- Dr Investment 200,000
- Cr Bank 200,000

10. Associate loss = R100,000. Parent owns 25%.

Answer: Share = 25,000 (25% x 100,000)

- Dr Share of loss 25,000
- Cr Investment 25,000

SECTION D — Scenario Questions

Scenario 1 Parent owns 100% of Subsidiary A (cost). Subsidiary A declares a dividend of R300,000.

Required: Treatment.

Solution: Recognise dividend income:

- Dr Bank 300,000
- Cr Dividend income 300,000

Scenario 2 Parent owns 40% of Associate B. Profit = R500,000. Dividend = R100,000.

Required: Journal entry.

Solution: Share of profit = 200,000 (40% x 500,000)

- Dr Investment in B 200,000
- Cr Share of profit 200,000

Share of dividend = 40,000 (40% x 100,000)

- Dr Bank 40,000
- Cr Investment in B 40,000

Scenario 3 Parent measures JV at FVPL. FV increases from R800,000 to R950,000.

Required: Journal entry.

Solution: Gain = 150,000 (950,000 – 800,000)

- Dr Investment in JV 150,000
- Cr Fair value gain 150,000

Scenario 4 Parent loses control of Subsidiary C. Carrying amount = R2,000,000. Retains 30% interest (C becomes an associate).

Required: Treatment.

Solution: Reclassify:

- Dr Investment in Associate C 2,000,000
- Cr Investment in Subsidiary C 2,000,000

Scenario 5 Parent measures subsidiaries at cost. Subsidiary D shows impairment indicator. Recoverable amount = R600,000. Carrying amount = R900,000.

Required: Treatment.

Solution: Impairment = 300,000 (900,000 – 600,000)

- Dr Impairment loss 300,000
- Cr Investment in Subsidiary D 300,000

Scenario 6 Parent measures associates using equity method. Associate E reports OCI gain of R50,000. Parent owns 20%.

Required: Treatment.

Solution: Share = 10,000 (20% x 50,000)

- Dr Investment in Associate E 10,000
- Cr Other comprehensive Income 10,000

Scenario 7 Parent measures JV under IFRS 9 FVOCI. FV increases by R70,000.

Required: Journal entry.

Solution:

- Dr Investment in joint venture 70,000
- Cr Other comprehensive Income 70,000

Scenario 8 Parent buys Subsidiary F for R3,000,000. Later buys additional shares for R500,000.

Required: Journal entries.

Solution:

- Dr Investment in subsidiary F 3,000,000
- Cr Bank 3,000,000

- Dr Investment in subsidiary F 500,000
- Cr Bank 500,000

Scenario 9 Associate G reports loss of R400,000. Parent owns 25%.

Required: Treatment.

Solution: Share = 100,000 (25% x 400,000)

- Dr Share of loss 100,000
- Cr Investment in associate G 100,000

Scenario 10 JV H measured at FVPL. Dividend = R60,000. FV decrease = R40,000.

Required: Journal entries.

Solution:

Dividend:

- Dr Bank 60,000
- Cr Dividend income 60,000

FV loss:

- Dr Fair Value loss 40,000
 - Cr Investment in joint venture H 40,000
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