24. Accounting for groups and the preparation of consolidated accounts

Introduction

24.1. All charities preparing consolidated accounts, whether as a requirement of company or charity law or on a voluntary basis, must follow this module. Charities should refer to section 9 of FRS 102 for more information.

24.2. Consolidated accounts are prepared by a parent charity and include all of the resources controlled by the parent charity. A parent charity is a charity that has one or more charitable or non-charitable subsidiaries (subsidiary entities).

24.3. Where consolidated accounts are prepared, the accounting disclosures required of the charity by other applicable modules are extended to the group accounts (unless otherwise stated).

24.4. This module sets out:

- the legal requirements to prepare consolidated accounts;
- what are consolidated accounts?;
- how control is identified;
- the consolidation procedures and accounting for non-controlling (minority interests);
- accounting for charity combinations;
- accounting for the acquisition and disposal of non-charitable subsidiaries; and
- disclosures required where consolidated accounts are prepared.

The legal requirements to prepare consolidated accounts

24.5. A parent charity must prepare consolidated accounts to include all of its subsidiary entities where the accounts' preparation is a requirement of:

- company law;
- charity law in the relevant legal jurisdiction(s); or
- any other statutory or mandatory framework applicable to the charity.

24.6. Details of the thresholds at which the preparation of consolidated accounts is mandatory are set out in Appendix 3, 'Thresholds for the UK and the Republic of Ireland'.

What are consolidated accounts?

24.7. Consolidated accounts, which are also known as group accounts, combine the activities, assets and liabilities of the reporting charity with those of the subsidiaries it controls. Consolidated accounts include the activities and funds of any subsidiary charity that is controlled by a parent charity as its trustee.

24.8. Consolidated accounts present the financial performance and financial position of the accounting group as though it were a single economic entity with a unity of trusteeship.

24.9. Consolidated accounts must include any associates or joint venture entities in which the parent charity has an interest. Refer to the separate SORP modules 'Accounting for associates' and 'Accounting for joint ventures' for more information.

24.10. The headings used in the accounting statements must state that they present the 'consolidated statement of financial activities' and 'consolidated balance sheet' of the parent charity and its subsidiaries, and the 'consolidated statement of cash flows'.

24.11. Consolidated accounts must also include any special purpose entity that is controlled by a parent charity and created to undertake an activity for the benefit of the parent charity. For more information about what constitutes a special purpose entity and the criteria for its consolidation, refer to section 9 of FRS 102.

24.12. A subsidiary is not excluded from consolidation because its activities are dissimilar to those of the parent charity or other entities within the consolidation. Nor is a subsidiary excluded from consolidation because it operates in a jurisdiction that imposes restrictions on transferring cash or other assets out of that jurisdiction provided it is able to control and manage those assets within that jurisdiction to further its charitable purposes. If immaterial subsidiaries, associates or joint ventures are excluded from the consolidated accounts, these are treated as investments and are reported at cost or fair value as appropriate. For more information, refer to the SORP modules 'Balance sheet', 'Accounting for associates' or 'Accounting for joint ventures'.

24.13. A subsidiary must be excluded from consolidation where:

- severe long-term restrictions substantially hinder the exercise of the rights of the parent over the assets or management of the subsidiary; a charitable subsidiary must only be excluded when both its charitable objects and its beneficiary class are not concurrent with that of its parent; or
- the subsidiary is held exclusively with a view to its subsequent resale and the subsidiary has not been previously consolidated by the charity.

24.13A. A subsidiary may be excluded from consolidation when its inclusion is not material for the purpose of giving a true and fair view (but two or more subsidiaries must only be excluded if they are not material when taken together).

How control is identified

24.14. A parent charity consolidates the subsidiaries it controls. 'Control' is the power to govern the financial and operating policies of an entity in order to obtain benefits from its activities.

24.15. Control is made up of two elements: power and benefit. The underlying principle is that the parent charity exercises control to obtain benefit from its interest in the subsidiary. The parent charity is deemed to exercise control over a subsidiary if it has both the power to govern and the ability to benefit.

24.16. The power element is presumed to exist when the parent charity owns, directly or indirectly through its subsidiaries, more than half the voting power of an entity. However, control can also exist when the parent charity directly or indirectly controls half or less than half of the voting power of an entity, if it has:

- power over more than half of the voting rights by virtue of agreement with other investors;
- the power to govern the financial and operating policies of the entity under a statute or an agreement;
- the power to appoint or remove the majority of the members of the board of directors or equivalent governing body, and control of the entity is by that board or body; or
- the power to cast the majority of votes at the meetings of the board of directors or equivalent governing body, and control of the entity is by that board or body.

24.17. The nature of the control a parent charity exercises differs in its character between non-charitable subsidiaries and controlled charities. Where a charity exercises control as an owner or investor in a non-charitable subsidiary, it does so to benefit from the cash flows and the financial return from that investment.

24.18. The parent charity can exercise control through trusteeship, which gives a parent charity the ability to govern the financial and operating policies of the subsidiary charity. The consolidated accounts show the total funds under the trusteeship of the parent charity.

24.19. The power element of control of one charity by another can be identified through:

- sole trusteeship;
- powers to appoint and/or remove a majority of the trustees;
- the terms of a formal agreement or arrangement; or
- the provisions of a clause in the governing document or a legislative provision.

24.20. Having trustees in common does not in itself demonstrate that the power element is present. Also, simply being the sole or main funder of another charity or entity is insufficient to demonstrate that the power element is present. While the funding of one charity by another indicates a degree of concurrence of purposes, for control to exist the power element must be present.

24.21. The benefit element of control is met where the purposes of the parent charity and its subsidiary charity are concurrent. The purposes of the parent charity do not have to be identical to those of its charitable subsidiary, nor do they need to encompass all the purposes of the charitable subsidiary. For concurrence, the purposes of the parent charity have to be similar enough to those of the subsidiary that the activities of the subsidiary can be seen to contribute to the purposes and aims of the parent charity and to benefit the parent charity's beneficiaries.

24.22. When considering whether the purposes are concurrent, judgement is required. The charity should consider whether the preparation of consolidated accounts will give a true and fair view of the nature of control it can exercise and its ability to benefit from its interest as the trustee of another charity.

24.23. The parent charity might benefit where the services and benefits provided by the subsidiary charity to its own beneficiaries also contribute to the purposes of the parent charity. The funds of the subsidiary charity are restricted to its own purposes and, unless the parent and subsidiary charity have identical purposes, the subsidiary will be a separate component of the group's reported restricted funds. The reporting of a restriction over the use of a subsidiary charity's funds is important for the understanding of the consolidated accounts and of how funds held by charitable subsidiaries may be used. For example, the funds of a subsidiary charity are not normally available to the creditors of the parent charity in the event of the latter's insolvency.

Consolidation procedures and accounting for non-controlling interests (minority interests)

24.24. For guidance on how to apply the consolidation procedures, charities should refer to section 9 of FRS 102. In particular, a parent charity must ensure that:

- the consolidation is undertaken on a line-by-line basis;
- balances and transactions between the parent and the subsidiary are eliminated;
- the accounts of the parent and its subsidiaries have, if practicable, the same reporting date; and
- uniform group-accounting policies are adopted for transactions and other events or conditions in similar circumstances.

24.25. Transactions between a parent and subsidiary charity are eliminated on consolidation. In the consolidated balance sheet, the charitable funds of the parent charity and the subsidiary charity must not be consolidated on a line-by-line basis; instead, the subsidiary charity's funds should be shown as a component of restricted funds – unless the subsidiary and parent have identical purposes. Where the purposes are identical, the unrestricted funds of the subsidiary are a component of the unrestricted funds of the group.

24.26. In some cases, a parent charity may not own the entire equity of a subsidiary. In this case, a non-controlling interest (minority interest) must be recognised. A non-controlling interest exists where a third party has a right to dividends or the distribution of resources, a claim on the net assets of the subsidiary through the holding of equity or significant influence through its voting power.

24.27. Where a non-controlling interest exists, it is important to consider the substance of the interest as well as legal form. For example, a subsidiary may be established to assist a charity to further its aims with supporters of the charity subscribing to the share capital. If the non-controlling interest enters into an agreement to waive their right to a share of the net assets in the event of the subsidiary being wound up and to receiving any dividends, then the parent charity enjoys all the economic benefits of the subsidiary and the non-controlling interest should not be recognised.

24.28. Where a non-controlling interest in a non-charitable subsidiary is recognised, the parent charity must:

- present in its consolidated balance sheet the non-controlling interest in the net assets of the consolidated subsidiaries separately from the parent charity's interest in them;
- separately present the non-controlling interest share of net income (or net expenditure) in the income or expenditure section of the consolidated SoFA; and
- present separately the non-controlling interest's share of any net gain or loss reported within the 'other recognised gains and losses' section of the consolidated SoFA.

24.29. In the case of a non-controlling interest in a subsidiary charity, the measurement of the non-controlling interest should consider the substance of the arrangement and the extent to which, if at all, the non-controlling interest benefits from its interest.

Accounting for charity combinations

24.30. Charities may on occasion combine into one reporting entity or operate through a restructured group. To establish whether the combination meets the definition and criteria of a merger, reference must be made to the SORP module 'Charity mergers'. Combinations that are not mergers may also take place between charities whereby assets and liabilities of one charity are transferred into the control of another charity at nil or nominal consideration and are in substance a gift. If the fair value of the assets received exceeds the fair value of the liabilities assumed, a gain is recognised and shown separately within income – normally as a gift (donation). Conversely, if the fair value of liabilities assumed exceed the fair value of the assets acquired then a net loss is recognised and shown separately in charitable expenditure. If the combination is neither in substance a gift nor a merger, it must be accounted for as an acquisition with any negative goodwill written off in the reporting period of acquisition.

Accounting for the acquisition and disposal of non-charitable subsidiaries

24.31. The income and expenditure of a subsidiary are included in the consolidated accounts from the date of the acquisition. The income and expenditure of a subsidiary are similarly included in the consolidated accounts until the date on which the parent charity ceases to control the subsidiary.

24.32. Where the parent charity purchases a non-charitable subsidiary and the consideration paid exceeds the value of the net assets acquired, goodwill arises on acquisition and is disclosed in the consolidated balance sheet. 'Goodwill' is an intangible fixed asset arising on the acquisition of a subsidiary purchased by the reporting charity. If, in exceptional cases, the useful economic life for goodwill cannot be estimated reliably, it is presumed to be ten years. Goodwill must be amortised and reviewed for impairment at each balance-sheet date.

24.33. However, in the case of a combination which is in substance a gift to the parent charity (where the consideration paid is nil or a nominal amount and is less than the net assets acquired) the parent charity has made a gain. The parent charity should recognise that gain as 'other income' in the consolidated SoFA, rather than treat it as negative goodwill on consolidation. In all other cases, where a parent charity acquires a subsidiary for consideration that is less than the value of the assets acquired, negative goodwill arises on the acquisition. Negative goodwill is disclosed separately on the consolidated balance sheet and released to income as the acquired non-monetary assets are depreciated or recovered through sale. Any negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised as income in the periods expected to benefit.

24.34. On the disposal of a controlling interest in a subsidiary, the reporting charity recognises a gain or loss on disposal in the appropriate line of the consolidated SoFA. If the reporting charity retains an equity interest in the former subsidiary, it must determine whether the retained interest represents an investment, an associate or a joint venture entity and account for it accordingly.

Intangible assets acquired in the acquisition of non-charitable subsidiaries

24.34A. An intangible asset is recognised as an asset if, and only if:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost or value of the asset can be measured reliably.

24.34B. Where a parent charity acquires a non-charitable subsidiary and acquires intangible assets, these assets must be recognised separately from goodwill when:

- the recognition criteria set out in paragraph 24.34A are met entirely;
- the intangible asset arises from contractual or other legal rights; and
- the intangible asset is separable (i.e. capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged either individually or together with a related contract, asset or liability).

24.34C. A charity may additionally choose to recognise any or all intangible assets separately from goodwill when the recognition criteria set out in paragraph 24.4A are met, and when either of the following conditions are satisfied:

- the intangible asset arises from contractual or other legal rights; or
- the intangible asset is separable.

24.34D. Where a charity chooses to recognise such additional intangible assets, this policy must be applied to all intangible assets in the same class (i.e. having a similar nature, function or use in the charity), and must be applied consistently to all non-charitable subsidiaries acquired. The charity must also disclose the nature of those intangible assets and the reason why they have been separated from goodwill. For more information refer to section 18 *Intangible Assets other than Goodwill* of FRS 102.

Disclosures required where consolidated accounts are prepared

24.35. The following disclosures must be made in the group's accounting policies note when consolidated accounts are prepared:

- a statement that the accounts are consolidated;
- the basis for concluding that control exists when the parent charity does not own, directly or indirectly through subsidiaries, more than half of the voting power;
- any difference in the reporting date of the accounts of the reporting charity parent and its subsidiaries in the preparation of the consolidated accounts;

- the nature and extent of any significant restrictions on the ability of subsidiaries to transfer funds to the parent charity in the form of cash dividends or to repay loans;
- the value of any non-controlling interest as a separate item, after the 'Funds of the charity' heading, on the balance sheet;
- the name of any subsidiary excluded from consolidation, and the reason for its exclusion; and
- the nature and extent of any interests in unconsolidated special purpose entities, and the risks associated with those interests.

24.36. This SORP requires that consolidated accounts must disclose, in relation to each material subsidiary:

- its name(s), company number and, where applicable, its charity registration number;
- particulars including the percentage of the parent charity's equity shareholding or other means of control;
- the aggregate amount of its assets, liabilities and funds at the end of the reporting period; and
- a summary of its turnover (or gross income) and expenditure and its profit or loss (or surplus or deficit) for the reporting period;

24.37. If a charity has a large number of subsidiary undertakings, the SORP allows a charity to limit the information to those subsidiary undertakings the results or financial position of which have a material effect on the amounts shown in the consolidated accounts.

24.38. A charity purchasing a controlling interest in non-charitable subsidiaries for consideration must make the disclosures required by FRS 102 paragraphs 19.26 and 19.26A.

24.39. Where the reporting charity acquires a material subsidiary in the reporting period, it must disclose:

- the date of acquisition;
- the cost of acquisition and how it was settled, for example by cash or debt instrument;
- the useful life of goodwill, and if this cannot be reliably estimated, supporting reasons for this;
- the periods in which any negative goodwill will be recognised;
- the amounts recognised for each class of assets, liabilities and contingent liabilities at acquisition; and
- a qualitative description of the nature of intangible assets included in goodwill.