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International Accounting Standards Board

INFORMATION FOR OBSERVERS

Board Meeting: **March 2006, London**

Project: **Business Combinations II**

Subject: **Presentation/Disclosure of Information about Changes in Controlling Ownership Interests (Agenda Paper 2E)**

INTRODUCTION

1. The proposed amendments to IAS 27 *Consolidated and Separate Financial Statements* and the FASB's Exposure Draft, *Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries,* (NCI EDs) propose classifying non-controlling interests as equity and accounting for changes in controlling ownership interests as equity transactions with no gain or loss recognised in net income/profit or loss. In IASB Agenda Papers 2B and 2D/FASB Memorandums 9 and 12, the staff recommend affirming those proposals.

2. However, the IASB's and the FASB's NCI EDs propose different disclosure requirements for changes in controlling ownership interests. As described in paragraph 6, the FASB's NCI ED proposes that entities disclose, in notes to the consolidated financial statements, a separate schedule that shows the effects of any transactions with the non-controlling interest on the equity attributable to the controlling interest. The IASB's NCI ED did not propose such a disclosure.

3. The staff note that many respondents, especially those who responded to the IASB's NCI ED, are concerned that the proposals will result in a loss of information for parent entity shareholders. The staff acknowledge that parent entity shareholders are important users

of consolidated financial statements. The staff believe that the information needs of parent entity shareholders can and should be met through presentation and disclosure, rather than classifying non-controlling interests in subsidiaries as liabilities and/or accounting for changes in controlling ownership interests as transactions with third parties that result in gains or losses recognised in net income/profit or loss.

4. The most significant presentation issue raised by respondents is the need for information about the effect on parent entity shareholders of transactions between controlling and non-controlling interests that do not result in a loss of control (referred to as "changes in controlling ownership interests" in this paper). As a result, the staff decided to ask the Boards for conceptual input on that issue in March before comprehensively addressing non-controlling interest presentation and disclosure issues at the April meeting.

5. This paper:

    a. describes the proposed presentation and disclosure requirements for changes in controlling ownership interests,

    b. summarises constituents' concerns that the proposals in the NCI EDs would not meet the information needs of parent entity shareholders,

    c. analyses alternative presentation and disclosure formats for information about changes in controlling ownership interests,

    d. asks the Boards to decide which alternative best meets the information needs of parent entity shareholders, and

    e. asks the Boards for input on the scope of non-controlling interests disclosures that should be addressed in this project.

PRESENTATION/DISCLOSURES PROPOSED IN THE NCI EDS

6. Both the IASB's and the FASB's NCI EDs propose to account for changes in controlling ownership interests as transactions between equity holders in their capacity as equity holders. However, the IASB's and the FASB's NCI EDs propose different disclosure requirements for changes in controlling ownerships interests:

	IASB NCI ED	FASB NCI ED	Difference
Presentation of the Statement of Changes in Equity	Proposes to amend paragraph 97 of IAS 1 *Presentation of Financial Statements* to present, *separately for total equity, equity attributable to equity holders of the parent and non-controlling interest*, a reconciliation of the carrying amount at the beginning and at the end of the period, separately disclosing changes resulting from: (1) profit or loss; (2) transactions with equity holders acting in their capacity as equity holders, showing separately distributions to equity holders; and (3) each item of income or expense recognised directly in equity, if any.	Proposes to require, in the statement of changes in equity, if presented, otherwise in notes to consolidated financial statements, a reconciliation of the changes *in the non-controlling interest* from the amount reported in equity as of the beginning of each period to the amount reported at the end of each period and shall separately disclose: (1) net income (2) investments by and distributions to the non-controlling interest acting in their capacity as owners (3) each component of other comprehensive income	In the US, only SEC registrants are required to present a statement of changes in equity, so the FASB NCI ED would require presentation in that statement or in the notes if that statement is not presented. The FASB NCI ED only would require a reconciliation of the non-controlling interest. Other requirements are effectively the same.
Disclosure of a Separate Schedule	N/A	Proposes to require, in notes to the consolidated financial statements, a separate schedule that shows the effects of any transactions with the non-controlling interest on the equity attributable to the controlling interest. An entity that presents earnings per share data also shall disclose on that schedule an additional per-share metric that includes in the calculation the effects of any equity transactions with the non-controlling interest.	The IASB decided not to require such a separate schedule because IAS 1.97 would already require this information to be provided in the statement of changes in equity or in the notes to the financial statements. In the US, only SEC registrants are required to present a statement of changes in equity, which is why the FASB proposed the supplemental disclosure. The IASB also decided not to require or preclude the additional per share measure proposed by the FASB that includes in the numerator the effects of changes in controlling ownership interests.

7. The focus of this paper is on the disclosure of information about changes in controlling ownership interests. This paper does not address the requirement to present an additional per share measure. The staff will address that issue, including the related comment letter analysis, at a future meeting.

SUMMARY OF COMMENTS RECEIVED

8. Most respondents disagreed with the proposals in the NCI EDs. Many respondents disagreed that changes in controlling ownership interests should be accounted for as equity transactions. That is because they believe that parent entity shareholders view purchases and sales of non-controlling interests as transactions with third parties that produce significant economic effects that should be recognised in net income/profit or loss. For example, F Hoffmann La Roche and the Federation of Swiss Industrial Holding Companies (IASB CL #25 and IASB CL #45) wrote:

> Users of consolidated financial statements - represented by current and potential investors - are interested in the financial performance and position of the group from the parent's perspective, so a full economic entity approach brings them disadvantages, not benefits; non-controlling interests obtain the different information which they need elsewhere, namely from the financial statements of the company in which they invest. ... As an illustration, we offer Roche's 1999 transactions in Genentech stock. In 1990 Roche had acquired 60% of Genentech. In June 1999 it exercised its option to purchase the remaining 40% for USD 4 billions, thus making Genentech a wholly owned subsidiary. In July and October 1999 Roche then sold 34% of Genentech through public offerings, yielding a pre-tax gain of USD 4.5 billions (proceeds less proportion of net assets). In our view these sales transactions clearly gave rise to real economic benefits to Roche's shareholders. To exclude them, as the exposure draft proposes, would be counterintuitive and misleading for shareholders of the parent.

9. Many respondents stated that the proposals would not enhance the quality and usefulness of the financial information provided to the primary users of the consolidated financial statements. However, those respondents did not provide any alternatives for the Boards to consider. For example, PwC (IASB CL #51/FASB CL #12) stated:

> …[I]nformation regarding investment performance from the perspective of the parent company's stakeholders is of critical importance. We believe the Boards' proposals do not reflect this perspective as they do not enhance the ability of an investor in the parent company to assess performance and make more informed investment decisions. Further, the ability of an investor to evaluate the stewardship of company management and the return on a company's invested capital would, in our view, be severely hampered under the Boards' proposals. ... [One of PwC's principles in its proposed model is that] changes in ownership of a subsidiary are discrete economic

> events that are relevant to parent company shareholders. The effect of these economic events should be displayed in a way that is meaningful for parent company shareholders.

10. Other respondents suggested that the proposals simply do not give enough prominence to the effects of purchases and sales of non-controlling interests and would result in a loss of information for parent entity shareholders.

    [Remainder of paragraph 10 and paragraph 11 not reproduced in observer notes.]

12. Some IASB constituents recommended additional note disclosures to counterbalance the perceived loss of information for parent entity shareholders. For example, Grant Thornton International (IASB CL #41) wrote:

> We acknowledge that under the parent entity perspective gain or loss [arising from changes in parent's ownership interests in subsidiaries that do not result in a loss of control] would, under the Board's proposals, be determinable from the statement of changes in equity. However, we believe that this presentation may not be as readily understandable to many users as the recognition of a gain or loss in the income statement. Accordingly, we recommend that the Board considers additional disclosures concerning such changes in ownership interests to ensure that its proposals do not detract from the usefulness and understandability of the information in the financial statements.

13. In contrast, the majority of FASB respondents disagreed with the proposed disclosure of a separate schedule displaying the effects of transactions with the non-controlling interest on the equity attributable to the controlling interest. Those who disagreed gave the following reasons:

    a. they did not believe that changes in controlling ownership interests are equity transactions.

    b. they believed that presentation in the statement of changes in equity was sufficient.

    c. they expected the preparation of the schedule to be time consuming and expensive.

    d. the additional schedule duplicates information that is already being provided to users by many constituents in the statement of changes in equity (e.g. IFRS filers and public companies).

    e. the additional schedule may be confusing for users of consolidated financial statements.

14. For example, Pfizer Inc. (FASB CL #26) stated:

> We fail to see how the extensive disclosures proposed in the ED will enhance the decision-usefulness and relevance of the financial statements of the primary users of the financial statements, i.e. the shareholders and creditors of the parent company. … The most relevant presentation of consolidated financial statements is based on the parent company model that best meets the information needs of the parent's shareholders. The extensive disclosures proposed by the ED would add considerable cost and introduce needless complexity into the preparation of the financial statements.

15. KPMG IFRG Limited (FASB CL #33/IASB CL #38) wrote:

> We believe that this information should be provided but do not agree that a separate schedule that shows the effects of any transactions with the non-controlling interests on the equity attributable to the controlling interest needs to be provided. Rather, this information should be included within the statement of changes in equity along with other changes in equity items. We agree with the FASB's observation … that users of financial statements will continue to be interested in amounts attributable to controlling interest since it is the shareholders of the parent company who are the primary users of those consolidated financial statements. …If the Boards believe the economic entity concept provides more decision-useful information to financial statement users, we question why the disclosures related to the controlling interest are required.

16. Finally, some respondents to the FASB NCI ED emphasised that the IASB had concluded that requiring a separate schedule is not necessary. These respondents suggested that before issuing final standards, the FASB and IASB's disclosure requirements should be converged.

Meetings with Users of Financial Statements

17. In addition to comments received on the NCI EDs, both Boards have sought additional input from users of consolidated financial statements.

18. In August 2003 the FASB met with financial statement users to discuss issues related to the accounting, presentation and disclosure of non-controlling interests. Users stated that they did not have significant concerns regarding the proposed accounting for transactions between controlling and non-controlling interests, as long as the amounts are clearly disclosed in the financial statements or in the notes.

19. In general, users were in favour of adding a supplementary schedule displaying the effects of changes in controlling ownership interests on equity. They believed that the schedule would be useful and add transparency to these transactions. However, one user suggested

that this schedule not be included as an additional statement because it may cause confusion about actual net income.

20. IASB staff met informally with members of the analyst community, who also emphasised the importance of disclosures on the effects of changes in controlling ownership interests on equity and expressed support for presenting an additional schedule under IAS 27, too. Some of these users fear that the economic meaning of the information presented in the additional schedule as proposed by the FASB might be difficult to understand. These users generally favoured presentation of information on such transactions on the face of the financial statements rather than a note disclosure.

ALTERNATIVES FOR PROVIDING INFORMATION ABOUT CHANGES IN CONTROLLING OWNERSHIP INTERESTS

21. To address respondents' concerns that the proposals in the NCI EDs do not adequately address the information needs of parent entity shareholders, the staff propose the following presentation/disclosure formats for changes in controlling ownership interests:

    a. *Alternative A* **–** Presentation only in the consolidated statement of changes in equity, if presented, otherwise separate note disclosure

    b. *Alternative B* **–** In addition to presentation in the statement of changes in equity, disclosure of a supplementary schedule in the notes to the consolidated financial statements

    c. *Alternative C* **–** Introduce a new statement to the set of consolidated financial statements or disclose at the bottom of the consolidated income statement.

22. Please note that at this time the staff ask the Boards only to decide conceptually on the presentation/disclosure format. The staff will bring a comprehensive presentation/disclosure package to the Boards in April.

Alternative A – Presentation in the consolidated statement of changes in equity, if presented, otherwise separate note disclosure

23. Under Alternative A the effects of subsequent changes in the parent's ownership interest in a subsidiary that do not result in a loss of control would be presented in the consolidated statement of changes in equity or if a consolidated statement of changes in equity is not presented, in a separate note disclosure (as described in Alternative B).

24. As noted above, both the IASB and the FASB NCI EDs propose this presentation. Illustrative consolidated statements of changes in equity according to the IASB and FASB NCI EDs are provided in Appendices B and C of this paper, respectively.

Advantages of Alternative A

25. Presentation in only the statement of changes in equity is consistent with accounting for changes in controlling ownership interests as equity transactions.

26. Presentation in only the statement of changes in equity also would appeal to those respondents who believe that the preparation of an additional schedule would be:

    a. time consuming

    b. duplicative of information that is already being provided to users by many constituents (e.g. IFRS filers and public companies); and

    c. confusing for users of consolidated financial statements.

Disadvantages of Alternative A

27. Presentation in only the statement of changes in equity would not appeal to those constituents who were concerned that the proposed consolidated statements of changes in equity could not meet the particular information needs of parent entity shareholders. Mainly IASB constituents stated that the proposed presentation was difficult to understand. They were also afraid that presenting the effects of changes in controlling ownership interests only in the consolidated statement of changes in equity without supplementary disclosure did not appropriately reflect the importance of the information.

28. In addition, the staff identified technical difficulties in preparing a consolidated statement of changes in equity according to the IASB ED. The proposed illustrative example in the IASB ED requires attributing parts of Share Capital, Other Reserves, Translation Reserves and Retained Earnings to non-controlling interest. The IASB ED does not provide technical guidance on how to perform such an attribution.

Proposed modifications to the consolidated statement of changes in equity

29. In response to these concerns the staff prepared modified consolidated statements of equity (based on the IASB ED) which aim to better meet the particular information needs of parent entity shareholders. Illustrative statements are attached as Appendices D and E:

    a. The illustrative statement in Appendix D provides a more detailed presentation of the composition of consolidated equity than that in the illustrative statement in the IASB ED by splitting up both controlling and non-controlling interest into various components. As a result, the effects of changes in controlling ownership interests on equity are more clearly presented. In addition, shifts in gains/losses directly recognised in equity / accumulated other comprehensive income attributable to the controlling interest and the non-controlling interest are more clearly visible.

b. The consolidated statement of changes in equity presented in Appendix E is based upon the illustration in the current implementation guidance on IAS 1. Only the controlling interest is split up into its components in this schedule. Non-controlling interest is presented in a one column format. As a result, the effects of changes in controlling ownership interests on equity are more clearly presented than in the illustrative statement in the IASB NCI ED. But shifts in gains/losses directly recognised in equity / accumulated other comprehensive income attributable to the controlling interest and the non-controlling interest are not presented as clearly as in Appendix D because the components of non-controlling interests are not presented.

30. In the staff's view, either the statement presented in Appendix D or in Appendix E conveys improved information to the users of consolidated financial statements. However, the staff note that the simplified presentation format in Appendix E may be easier to understand for many of the users of consolidated financial statements.

Alternative B – In addition to presentation in the statement of changes in equity, disclosure of a supplementary schedule in the notes to the consolidated financial statements

31. Under Alternative B, information about the effects of changes in controlling ownership interests on consolidated equity would be disclosed in a supplementary schedule in addition to the consolidated statement of changes in equity.

32. As noted above, the FASB NCI ED proposes to require disclosure of a supplementary schedule in the notes to the consolidated financial statements. Appendix F contains an illustrative supplementary schedule according to the FASB NCI ED.

Advantages of Alternative B

33. Disclosure of a supplementary schedule would appeal to those respondents who believe that the effects of changes in controlling ownership interests on consolidated equity should be given higher prominence than just in the statement of changes in equity.

Disadvantages of Alternative B

34. Disclosure of a separate schedule would not appeal to those respondents who believe that the preparation of an additional schedule would be time consuming, duplicative, and confusing. The staff disagree with respondents that preparation of a supplementary schedule could be time consuming and expensive. As many respondents remarked, the supplementary schedule discloses information that is already being generated for other

reporting purposes. The supplementary schedule aims mainly to give greater prominence to the effects of changes in controlling ownership interests on consolidated equity which may otherwise be hard to retrieve in the consolidated financial statements. It does not convey new information.

Modifications to the proposed supplementary schedule

35. Appendix G contains a modified format of the supplementary schedule that the staff consider to be easier to understand than the supplementary schedule required by the FASB NCI ED, as it contains a more extensive disclosure of changes in controlling ownership interest

Alternative C - Introduce a new statement to the set of consolidated financial statements or disclose at the bottom of the consolidated income statement

36. Alternative C is to present a new statement in the set of consolidated financial statements or disclose the effects of transactions with non-controlling interests at the bottom of the consolidated income statement. Currently neither the FASB nor the IASB NCI ED propose requiring this presentation.

Advantages of Alternative C

37. Alternative C would give even higher prominence to the effects of changes in controlling ownership interests on consolidated equity.

Disadvantages of Alternative C

38. Adding the schedule as an additional statement to the set of consolidated financial statements or at the bottom of the consolidated income statement might cause confusion among users of consolidated financial statements about actual consolidated net income/profit or loss. In addition, Alternative C would not appeal to those respondents who believe that the preparation of the schedule would be time consuming, duplicative, and confusing.

Modifications to the proposed supplementary schedule

39. The layout of the statement would be similar to the supplementary schedule disclosed under Alternative B. Therefore, reference is made to the alternative disclosure format discussed under Alternative B.

STAFF RECOMMENDATION AND QUESTION FOR THE BOARDS

40. Many respondents were concerned that the proposals especially in the IASB ED do not adequately address parent entity shareholders' particular information needs regarding the effect of changes in controlling ownership interests on equity. The staff think that these particular information needs can be addressed by adequate presentation/disclosure without changing the fundamental principles underlying the NCI EDs.

41. The staff recommend requiring, in addition to the presentation of changes in controlling ownership interests in the consolidated statement of changes in equity, disclosure in the notes of a supplementary schedule displaying the effects of changes in controlling ownership interests on equity (Alternative B). An illustration of the format of these required presentations/disclosures would be provided in the non-authoritative implementation/application guidance. The staff believe that requiring a supplementary schedule displaying the effects of changes in controlling ownership interests on equity will address respondents' concerns that the information needs of parent entity shareholders would not be met through presentation in the statement of changes in equity alone.

42. The staff agree with respondents that the presentation of the effects of changes in controlling ownership interests in the consolidated statements of changes in equity and the supplementary schedule in the NCI EDs might be difficult to understand. Therefore, the staff have, as discussed above, prepared modified presentation formats of the consolidated statement of changes in equity (Appendices D and E) and a supplementary schedule (Appendix G) for the Boards to consider. The staff consider these modified formats to be easier to interpret.

43. The staff reject Alternative C (adding the supplementary schedule as an additional statement to the set of consolidated financial statements or at the bottom of the consolidated income statement) because they share concerns of users of consolidated financial statements that Alternative C might cause confusion among users of consolidated financial statements about actual consolidated net income.

44. *Do the Boards agree that the combination of one of the modified consolidated statements of changes in equity with the modified supplementary schedule (Alternative B) will meet the particular information needs of parent entity shareholders?*

SCOPE OF DISCLOSURES TO BE ADDRESSED AT APRIL BOARD MEETINGS

45. The staff plan to address additional presentation/disclosure issues related to non-controlling interests at the joint April meeting. To assist the staff in preparing for that meeting, we request Board members' input about the scope of the proposed disclosures to be addressed in this project.

Disclosures about the Disposal of a Subsidiary

46. The staff note that a lack of symmetry exists between the disclosures required for the acquisition of a subsidiary and those required for the disposition of a subsidiary. For example, the BC ED proposes that an acquirer be required to disclose the amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed. However, no similar requirement exists to disclose the amounts derecognised on the disposal of a subsidiary.

47. Disclosures are required when an entity acquires a subsidiary to help users assess the impact of the acquisition on the group (e.g. the impact on the group's ability to generate future cash flows). The staff believe that information about the disposal of a subsidiary is also important to users of consolidated financial statements to help them assess the impact of the disposal on the group's ability to generate future cash flows.

48. The staff seek input from the Boards on whether we should explore adding disclosures about the disposal of a subsidiary so that the required disclosures are symmetrical with those for the acquisition of a subsidiary.

49. Do the Boards want the staff to explore making the disclosure requirements for the disposal of a subsidiary symmetrical with those for the acquisition of a subsidiary?

Disclosures about Noncontrolling Interests in the Balance Sheet and Cash Flows Statement

50. During informal discussions with staff, several analysts indicated that it would be useful to have additional information about non-controlling interests in the consolidated financial statements. For example, analysts stated that the following information would be useful:

    a. in the balance sheet, information about whether the assets that are generating wealth for the group are owned entirely by the parent entity or by subsidiaries with non-controlling interests.

b. in the cash flows statement, information about whether the group's cash flows are being generated by subsidiaries with non-controlling interests or by the parent entity.

51. The staff have not considered in depth what these disclosures would look like. The staff wanted to bring these requests to the attention of the Boards, but believe that the disclosures are outside the scope of this project.

52. *Do the Boards agree that additional disclosures about non-controlling interests in the balance sheet and cash flows statement should not be addressed in this phase of the business combinations project?*

APPENDIX A – Basic Assumptions

53. The examples are based on the following assumptions:

Entity X, the parent, has one foreign subsidiary, Subsidiary A.

Equity interest in Subsidiary A:

a. As of December 31, 20X6, Entity X owns 80 percent of Subsidiary A

b. On January 1, 20X7, Entity X sells a portion of its shares in Subsidiary A to a third party for cash of CU 17,000 and decreases its interest in Subsidiary A to 70 percent. Entity X continues to control Subsidiary A after the transaction. The carrying value of the interest sold is CU 16,910, which includes gains on available-for-sale securities recognised directly in equity / other comprehensive income of CU 1,870. This amount is reattributed to the non-controlling interest.

c. On July 1, 20X7, Entity X purchases shares of Subsidiary A from the non-controlling shareholders for cash of CU 57,000 and increases its interest in Subsidiary A to 90 percent. The carrying value of the interest purchases is CU 54,900 which includes gains on available-for-sale securities recognised directly in equity / other comprehensive income of CU 5,400. This amount is reattributed to Entity X.

Further assumptions:

d. Consolidated net income in 20X7 was CU 121,250.

e. Due to the sale of available-for-sale securities gains recognised directly in equity (accumulated other comprehensive income) of CU 20,000 are recognised as profit.

f. In 20X7 foreign currency translations adjustments amount to CU 6,000.

g. In 20X7 Entity X issues preferred stock for proceeds of CU 50,000.

h. Entity X pays dividends of CU 10,000 on its common stock and CU 5,000 on its preferred stock.

APPENDIX B – Consolidated Statement of Changes in Equity according to the IASB ED

	Share Capital	Preferred Stock	Additional Paid-in Capital	Other Reserves	Translation Reserves	Retained Earnings*	Total Equity	Attributable to equity holders of the parent	Attributable to non-controlling interest
	CU	CU	CU	CU	CU	CU	CU	CU	CU
Balance at 31 December 20X6	**200,000**	**0**	**400,000**	**20,000**	**7,500**	**204,000**	**831,500**	**782,900**	**48,600**
Changes in equity for 20X7									
Available-for-sale investments:									
Valuation gains/(losses) taken to equity				0			0	0	0
Transferred to profit or loss on sale				(20,000)			(20,000)	(16,000)	(4,000)
Exchange differences on translating foreign operations					6,000		6,000	4,800	1,200
Net income recognised dierectly in equity	0	0	0	(20,000)	6,000	0	(14,000)	(11,200)	(2,800)
Profit for the period						121,250	121,250	97,000	24,250
Total recognised income and expense for the period	**0**	**0**	**0**	**(20,000)**	**6,000**	**121,250**	**107,250**	**85,800**	**21,450**
Dividends declared on parent common stock						(10,000)	(10,000)	(10,000)	0
Dividends declared on parent preferred stock						(5,000)	(5,000)	(5,000)	0
Issuance of preferred stock		50,000					50,000	50,000	0
Decrease in interest in subsidiary			1,960			15,040	17,000	90	16,910
Increase in interest in subsidiary			(7,500)			(49,500)	(57,000)	(2,100)	(54,900)
Balance at 31 December 20X7	**200,000**	**50,000**	**394,460**	**0**	**13,500**	**275,790**	**933,750**	**901,690**	**32,060**

* Non-controlling interest as of 31 December 20X6 has been allocated to retained earnings.

APPENDIX C – Consolidated Statement of Changes in Equity according to the FASB ED

		Controlling Interest						Non-controlling Interest		
	Total CU	Comprehensive Income CU	Retained Earnings CU	Accumulated Other Comprehensive Income CU	Common Stock CU	Preferred Stock CU	Paid-in Capital CU	Non-controlling Interest CU	Accumulated Other Comprehensive Income CU	Total Non-controlling Interest CU
Beginning balance	**831,500**		**160,900**	**22,000**	**200,000**	**0**	**400,000**	**43,100**	**5,500**	**48,600**
Issuance of preferred stock	50,000					50,000				
Comprehensive income:										
Net income (loss)	242,500	121,250	97,000					24,250		24,250
Other comprehensive income (loss), net of tax:										
Unrealized gains on securities (net of reclassification adjustment)	(40,000)	(20,000)		(16,000)					(4,000)	(4,000)
Foreign currency translation adjustment	12,000	6,000		4,800					1,200	1,200
Other comprehensive income (loss), net of tax	(28,000)	(14,000)	0	(11,200)	0	0	0	0	(2,800)	(2,800)
Comprehensive income	**214,500**	**107,250**	**97,000**	**(11,200)**	**0**	**0**	**0**	**24,250**	**(2,800)**	**21,450**
Sale of subsidiary shares to non-controlling interest	17,000			(1,870)			1,960	15,040	1,870	16,910
Purchase of subsidiary shares from non-controlling interest	(57,000)			5,400			(7,500)	(49,500)	(5,400)	(54,900)
Dividends declared on common stock	(10,000)		(10,000)							
Dividends declared on preferred stock	(5,000)		(5,000)							
Ending balance	**933,750**		**242,900**	**14,330**	**200,000**	**50,000**	**394,460**	**32,890**	**(830)**	**32,060**

APPENDIX D – Modified Consolidated Statement of Changes in Equity (Alternative 1)

	Controlling Interest							**Non-controlling Interest**				**Total**
	Share Capital	**Preferred Stock**	**Additional Paid-in Capital**	**Other Reserves**	**Translation Reserves**	**Retained Earnings**	**Subtotal**	**Non-controlling Interest**	**Other Reserves**	**Translation Reserves**	**Subtotal**	
	CU	**CU**	**CU**	**CU**	**CU**	**CU**	**CU**	**CU**	**CU**	**CU**	**CU**	**CU**
Balance at 31 December 20X6	**200,000**	**0**	**400,000**	**15,600**	**6,400**	**160,900**	**782,900**	**43,100**	**3,900**	**1,600**	**48,600**	**831,500**
Profit for the period						**97,000**	**97,000**	**24,250**			**24,250**	**121,250**
Changes in equity for 20X7												
Available-for-sale investments												
Valuation gains/losses taken to equity				0			0		0		0	0
Transferred to profit or loss on sale				(16,000)			(16,000)		(4,000)		(4,000)	(20,000)
Exchange differences on translating foreign operations					4,800		4,800			1,200	1,200	6,000
Net income recognised directly in equity	0	0	0	(16,000)	4,800	0	(11,200)	0	(4,000)	1,200	(2,800)	(14,000)
Total recognised income and expense for the period	**0**	**0**	**0**	**(16,000)**	**4,800**	**97,000**	**85,800**	**24,250**	**(4,000)**	**1,200**	**21,450**	**107,250**
Transactions with Parent Entity Shareholders												
Dividends declared on parent common stock						(10,000)	(10,000)				0	(10,000)
Dividends declared on parent preferred stock						(5,000)	(5,000)				0	(5,000)
Issuance of Preferred Stock		50,000					50,000					50,000
Subtotal	0	50,000	0	0	0	(15,000)	35,000	0	0	0	0	35,000
Transactions with Non-Controlling Interest												
Sale of interest in subsidiary			1,960	(1,870)			90	15,040	1,870		16,910	17,000
Purchase of interest in subsidiary			(7,500)	5,400			(2,100)	(49,500)	(5,400)		(54,900)	(57,000)
Subtotal	0	0	(5,540)	3,530	0	0	(2,010)	(34,460)	(3,530)	0	(37,990)	(40,000)
Balance at 31 December 20X7	**200,000**	**50,000**	**394,460**	**3,130**	**11,200**	**242,900**	**901,690**	**32,890**	**(3,630)**	**2,800**	**32,060**	**933,750**

APPENDIX E – Modified Consolidated Statement of Changes in Equity (Alternative 2)

	Share Capital	Preferred Stock	Additional Paid-in Capital	Other Reserves	Translation Reserves	Retained Earnings	Total	Non-controlling Interest	Total Equity
	CU	CU	CU	CU	CU	CU	CU	CU	CU
Balance at 31 December 20X6	**200,000**	**0**	**400,000**	**15,600**	**6,400**	**160,900**	**782,900**	**48,600**	**831,500**
Profit for the period						**97,000**	**97,000**	**24,250**	**121,250**
Changes in equity for 20X7									
Available-for-sale investments									
Valuation gains/losses taken to equity				0			0	0	0
Transferred to profit or loss on sale				(16,000)			(16,000)	(4,000)	(20,000)
Exchange differences on translating foreign operations					4,800		4,800	1,200	6,000
Net income recognised directly in equity	0	0	0	(16,000)	4,800	0	(11,200)	(2,800)	(14,000)
Total recognised income and expense for the period	**0**	**0**	**0**	**(16,000)**	**4,800**	**97,000**	**85,800**	**21,450**	**107,250**
Transactions with Parent Entity Shareholders									
Dividends declared on parent common stock						(10,000)	(10,000)	0	(10,000)
Dividends declared on parent preferred stock						(5,000)	(5,000)	0	(5,000)
Issuance of Preferred Stock		50,000					50,000		50,000
Subtotal	0	50,000	0	0	0	(15,000)	35,000	0	35,000
Transactions with Non-Controlling Interest									
Sale of interest in subsidiary			1,960	(1,870)			90	16,910	17,000
Purchase of interest in subsidiary			(7,500)	5,400			(2,100)	(54,900)	(57,000)
Subtotal	0	0	(5,540)	3,530	0	0	(2,010)	(37,990)	(40,000)
Balance at 31 December 20X7	**200,000**	**50,000**	**394,460**	**3,130**	**11,200**	**242,900**	**901,690**	**32,060**	**933,750**

APPENDIX F – Supplementary Schedule according to the FASB ED

	20X7 CU	20X6 CU
Income from continuing operations, net of tax	**121,250**	**96,000**
Less: Income from continuing operations, net of tax, attributable to non-controlling interest	24,250	19,200
Income from continuing operations, net of tax, attributable to controlling interest	**97,000**	**76,800**
Less: Preferred Stock Dividend	5,000	0
Income from continuing operations, net of tax, attributable to common shareholders of the parent	**92,000**	**76,800**
Less: Amounts attributable to common shareholder of the parent for:		
Discontinued operations net of tax	0	(5,600)
Extraordinary item, net of tax	0	(16,800)
Cumulative effect of an accounting change, net of tax	0	(2,000)
Net Income attributable to common shareholders of the parent	**92,000**	**52,400**
Transfers (to) from the non-controlling interest:		
Premium received from sale of subsidiary shares to non-controlling interest	1,960	0
Premium paid to acquire subsidiary shares from non-controlling interest	(7,500)	0
Net transfers to non-controlling interest in subsidiary	(5,540)	0
Change from net income attributable to common shareholders of the parent and transfers to non-controlling interest in subsidiary	**86,460**	**52,400**

APPENDIX G – Modified Supplementary Schedule

		20X7 CU	20X6 CU
Profit for the period		**121,250**	**65,500**
Less: Profit attributable to non-controlling interest		(24,250)	(13,100)
Profit attributable to controlling interest		**97,000**	**52,400**
Less: Preferred Stock Dividend		(5,000)	0
Profit attributable to common shareholders of the parent		**92,000**	**52,400**
Transfers (to) from the non-controlling interest			
Sale of a 10% Interest in Subsidiary			
Proceeds from Sale	17,000		
Plus: Reallocation of unrealised gains from available-for-sale investments of Subsidiary	1,870		
Less: Carrying Amount of sold interest	(16,910)		
Premium received from Sale		1,960	0
Purchase of a 20% Interest in Subsidiary			
Carrying Amount of acquired interest	54,900		
Less: Reallocation of unrealised gains from available-for-sale investments of Subsidiary	(5,400)		
Less: Consideration paid	(57,000)		
Premium paid for purchase		(7,500)	0
Net transfers to non-controlling interest in subsidiary		(5,540)	0
Change from net income attributable to common shareholders of the parent and transfers to non-controlling interest in subsidiary		**86,460**	**52,400**