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Ministry of Finance of the Republic of Azerbaijan

**NATIONAL ACCOUNTING STANDARD
FOR COMMERCIAL ORGANISATIONS №19**

“Consolidated Financial Statements”

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NASCO 19

Consolidated Financial Statements

General provisions

Purpose of Standard

1. This Standard has been prepared in accordance with the Accounting Law of the Azerbaijan Republic and is based on International Accounting Standard 27 "Consolidated and Separate Financial Statements".

Objective

2. The objective of this Standard is to specify the financial reporting practice to be adopted in the production of financial statements by a group of entities

Scope

3. This Standard will be applied by all types of commercial enterprise that prepare financial statements in accordance with Article 10 of the Accounting Law of the Azerbaijan Republic, taking into account the additional provisions contained in the Explanations and Recommendations on its Application
4. In the case of contradictions between effective normative-legal Acts on accounting regulation and this National Accounting Standard, the National Accounting Standard should be applied.
5. This Standard is to be applied in the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent.
6. This Standard shall also be applied in accounting for investments in subsidiaries, jointly controlled entities and associates when an entity elects to present separate financial statements.

Definitions

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

Consolidated financial statements are the financial statements of a group of entities presented as those of a single economic entity.

The *cost method* is a method of accounting for an investment where the investment is recognised at cost. The investor recognises income from the investment only to the extent of received distributions from accumulated profits arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.

A *group* is a parent and all its subsidiaries.

Separate financial statements are those presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

A *subsidiary* is an entity, including an unincorporated entity that is controlled by another entity.

8. When a parent or a subsidiary is also an investor in an associate or is part of a joint venture then the consolidated financial statements must comply with this Standard and NASCO 20 – Accounting for Associates or NASCO 21 – Joint Ventures.
9. A parent that is exempted in accordance with paragraph 10 from presenting consolidated financial statements may present separate financial statements as its only financial statements.

Presentation of consolidated financial statements

- 10 A parent, other than a parent described in paragraph 11, shall present consolidated financial statements in which it consolidates its investments in subsidiaries in accordance with this Standard.
- 11 A parent need not present consolidated financial statements if and only if:
 - (a) the parent is itself a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements; and
 - (b) the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with NASCOs.

12. A parent that elects in accordance with paragraph 10 not to present consolidated financial statements, and presents only separate financial statements, complies with paragraphs 31–35

Scope of consolidated financial statements

13. Consolidated financial statements shall include all subsidiaries of the parent. If on acquisition a subsidiary meets the criteria to be classified as held for sale in accordance with NASCO 23 *Non-current Assets Held for Sale and Discontinued Operations*, it shall be accounted for in accordance with that Standard.
14. In assessing whether potential voting rights contribute to control, and from that if an entity is a subsidiary, the parent entity will examine all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual arrangements whether considered individually or in combination) that affect potential voting rights, except the intention of management and the financial ability to exercise or convert.
15. A subsidiary is not excluded from consolidation simply because the investor is a venture capital organisation, mutual fund, unit trust or similar entity.
16. A subsidiary is not excluded from consolidation because its business activities are dissimilar from those of the other entities within the group.
17. A parent loses control when it loses the power to govern the financial and operating policies of an investee so as to obtain benefit from its activities. The loss of control can occur with or without a change in absolute or relative ownership levels.

Consolidation procedures

18. In preparing consolidated financial statements, an entity combines the financial statements of the parent and its subsidiaries line by line by adding together like items of assets, liabilities, equity, income and expenses. In order that the consolidated financial statements present financial information about the group as that of a single economic entity, the following steps are then taken:
 - (a) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary are eliminated (see NASCO 18, which describes the treatment of any resultant goodwill);
 - (b) minority interests in the profit or loss of consolidated subsidiaries for the reporting period are identified; and
 - (c) minority interests in the net assets of consolidated subsidiaries are identified separately from the parent shareholders' equity in them. Minority interests in the net assets consist of:
 - (i) the amount of those minority interests at the date of the original combination calculated in accordance with NASCO 18; and
 - (ii) the minority's share of changes in equity since the date of the combination.
19. When potential voting rights exist, the proportions of profit or loss and changes in equity allocated to the parent and minority interests are determined on the basis of present ownership interests and do not reflect the possible exercise or conversion of potential voting rights
20. Intragroup balances, transactions, income and expenses shall be eliminated in full. Profits and losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full. Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements. NASCO 4 – *Deferred Tax* applies to temporary differences that arise from the elimination of profits and losses resulting from intragroup transactions
21. The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same reporting date. When the reporting dates of the parent and a subsidiary are different, the subsidiary prepares, for consolidation purposes, additional financial statements as of the same date as the financial statements of the parent unless it is impracticable to do so.
22. When, in accordance with paragraph 21, the financial statements of a subsidiary used in the preparation of consolidated financial statements are prepared as of a reporting date different from that of the parent, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the parent's financial statements. In any case, the difference between the reporting date of the subsidiary and that of the parent shall be no more than three months. The length of the reporting periods and any difference in the reporting dates shall be the same from period to period.

23. Consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances.
24. If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.
25. The income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date as defined in NASCO 18. The income and expenses of a subsidiary are included in the consolidated financial statements until the date on which the parent ceases to control the subsidiary. The difference between the proceeds from the disposal of the subsidiary and its carrying amount as of the date of disposal, including the cumulative amount of any exchange differences that relate to the subsidiary recognised in equity in accordance with NASCO 22 - *The Effects of Changes in Foreign Exchange Rates*, is recognised in the consolidated income statement as the gain or loss on the disposal of the subsidiary.
26. When an entity ceases to be a subsidiary then the carrying amount of the investment in the subsidiary at the date it ceases to be a subsidiary will be regarded as its cost on initial measurement of a financial asset in the financial statements of the former parent.
27. Minority interests shall be presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity. Minority interests in the profit or loss of the group shall also be separately disclosed
28. The profit or loss is attributed to the parent shareholders and minority interests. Because both are equity, the amount attributed to minority interests is not income or expense
29. If the share of losses applicable to the minority exceeds the minority interest in shareholder equity then these losses must be applied against the majority interest except when the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.
30. If a subsidiary has outstanding cumulative preference shares that are held by minority interests and classified as equity, the parent computes its share of profits or losses after adjusting for the dividends on such shares, whether or not dividends have been declared.

Presentation of investments in subsidiaries, jointly controlled entities and associates in separate financial statements

31. When separate financial statements are prepared, investments in subsidiaries, jointly controlled entities and associates that are not classified as held for sale shall be accounted for at cost. The same accounting shall be applied for each category of investments.
32. If an entity elects to produce separate financial statements then these statements must comply with NASCOs and must also comply with paragraphs 31 -35 of this NASCO.

Disclosure

33. The following disclosures shall be made in consolidated financial statements:
 - (a) the nature of the relationship between the parent and a subsidiary when the parent does not own, directly or indirectly through subsidiaries, more than half of the voting power;
 - (b) the reasons why the ownership, directly or indirectly through subsidiaries, of more than half of the voting or potential voting power of an investee does not constitute control;
 - (c) the reporting date of the financial statements of a subsidiary when such financial statements are used to prepare consolidated financial statements and are as of a reporting date or for a period that is different from that of the parent, and the reason for using a different reporting date or period; and
 - (d) the nature and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans or advances.
34. When separate financial statements are prepared for a parent that, in accordance with paragraph 11, elects not to prepare consolidated financial statements, those separate financial statements shall disclose:

- (a) the fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name and country of incorporation or residence of the entity whose consolidated financial statements that comply NASCOs have been produced for public use; and the address where those consolidated financial statements are obtainable;
 - (b) a list of significant investments in subsidiaries, jointly controlled entities and associates, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held; and
 - (c) a description of the method used to account for the investments listed under (b).
35. When a parent (other than a parent covered by paragraph 33), venturer with an interest in a jointly controlled entity or an investor in an associate prepares separate financial statements, those separate financial statements shall disclose:
- (a) the fact that the statements are separate financial statements and the reasons why those statements are prepared if not required by law;
 - (b) a list of significant investments in subsidiaries, jointly controlled entities and associates, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held; and
 - (c) a description of the method used to account for the investments listed under (b);
- and shall identify the financial statements prepared in accordance with paragraph 10 of this Standard, NASCO 20 – Accounting for Associates and NASCO 21 – Joint Ventures to which they relate.

Effective date

36. This National Standard for Commercial Organisations becomes operative after the date determined by the Minister of Finance of the Azerbaijan Republic

Appendix 1 - Comparison with IAS 27 Consolidated and Separate Financial Statements

This National Accounting Standard for Commercial Organisations (NASCO) 19 – Consolidated and Separate Financial Statements is drawn primarily from International Accounting Standard (IAS) 27 (2006) – Consolidated and Separate Financial Statements. The main differences between NASCO 19 and IAS 27 are as follows:

- There are no significant differences between NASCO 19 and IAS 27
- The general provisions set out in paragraph 1 of the NASCO has been added and relates the Standard to the Accounting Law of the Republic of Azerbaijan
- Paragraphs 3 and 4 of the NASCO defines the scope of the organisations required to apply the Standard as set out in the Accounting Law of the Republic of Azerbaijan
- IAS 27 contains a number of illustrative examples and explanations. In line with established policy they have been removed from NASCO 19 and will be covered in the Explanations document
- Some paragraphs in IAS 27 have had the English simplified
- Paragraphs in IAS 27 that refer to other IASs for which there is no comparable NASCO have been omitted.