This accounting policy paper is based on IPSAS 34 Separate Financial Statements, as adopted by the Treasury of the Republic of Cyprus.

Separate Financial Statements

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1. INTRODUCTION

1.1 OVERVIEW

Separate financial statements are stand-alone financial statements of individual entities that are presented in addition to consolidated financial statements.

A controlling entity's separate financial statements accounts for:

Investments in controlled entities	Investments in joint ventures	Investments in associates
(entities that are under the control of another entity i.e. their financial and operating policies are governed by another entity)	(binding arrangements whereby two or more parties are committed to undertake an activity that is subject to joint control)	(entities over which the investor has significant influence)

1.2 OBJECTIVES

The objective of this accounting policy is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

The aim of this policy is to provide technical accounting guidance for the preparation of financial statements, so as to enable the financial statements to give a true and fair view.

The aforementioned policy is prepared following guidance from all relevant International Public Sector Accounting Standards (IPSASs).

1.3 SCOPE

An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this policy in accounting for investments in controlled entities, joint ventures and associates when it elects, or is required by regulations, to present separate financial statements.

1.4 DEFINITIONS

Associate is an entity over which the investor has significant influence.

Consolidated financial statements are the financial statements of an economic entity in which the assets, liabilities, net assets/ equity, revenue, expenses and cash flows of the controlling entity and its controlled entities are prepared as those of a single economic entity.

Control An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.

Controlled entity is an entity that is controlled by another entity.

Controlling entity is an entity that controls one or more entities.

Economic entity is a controlling entity and its controlled entities.

Equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets/equity of the associate or joint venture. The investor's surplus or deficit includes its share of the investee's surplus or deficit and the investor's net assets/equity includes its share of changes in the investee's net assets/equity that have not been recognised in the investee's surplus or deficit.

Investment entity is an entity that:

a) Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
b) Has the purpose of investing funds solely for returns from capital appreciation, investment revenue, or both; and

c) Measures and evaluates the performance of substantially all of its investments on a fair value basis.

Joint control is the agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

Joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Joint venturer is a party to a joint venture that has joint control of that joint venture.

Separate financial statements are those presented by an entity, in which the entity could elect, subject to the requirements of this accounting policy, to account for its investments in controlled entities, joint ventures and associates either at cost, in accordance with the Accounting Policy for Financial Instruments, or using the equity method as described in the Accounting Policy for Investments in Associates and Joint Ventures.

Significant influence is the power to participate in the financial and operating policy decisions of another entity but is not control or joint control of those policies.

Any other terms defined in other accounting policies that have been adopted by the government of the Republic of Cyprus, have the meaning presented in those accounting policies.

2. PREPARATION OF SEPARATE FINANCIAL STATEMENTS

Separate financial statements are those presented in addition to consolidated financial statements or in addition to the financial statements of an investor that does not have controlled entities but has investments in associates or joint ventures in which these investments are required by the Accounting Policy for Investments in Associates and Joint Ventures to be accounted for by using the equity method.

1. Exemptions:

a) An entity that is exempted from consolidation in accordance with paragraph 3.1 of the Accounting Policy for Consolidated Financial Statements, or from applying the equity method in accordance with paragraph 3.2.1 of the Accounting Policy for Investments in Associates and Joint Ventures, shall present separate financial statements as its only financial statements.

b) An investment entity that is required, throughout the current period and all comparative periods presented, to measure its investment in all its controlled entities at fair value through surplus or deficit in accordance with paragraph 4 of the Accounting Policy for Consolidated Financial Statements, presents separate financial statements as its only financial statements.

2. Separate financial statements shall be prepared in accordance with all applicable IPSASs. However, when an entity prepares separate financial statements, it shall account for similar investments in controlled entities, joint ventures and associates using the equity method as described in the Accounting Policy for Investments in Associates and Joint Ventures.

3. If an entity elects, in accordance with paragraph 3.2.1(3) of the Accounting Policy for Investments in Associates and Joint Ventures, to measure its investments in associates or joint ventures at fair value through surplus or deficit in accordance with the Accounting Policy for Financial Instruments, it shall also account for those investments in the same way in its separate financial statements.

4. If a controlling entity is required, in accordance with paragraph 4 of the Accounting Policy for Consolidated Financial Statements, to measure its investment in a controlled entity at fair value through surplus or deficit in accordance with the Accounting Policy for Financial Instruments, it shall also account for that investment in the same way in its separate financial statements. If a controlling entity, that is not itself an investment entity is required, in accordance with paragraph 4 of the Accounting Policy for Consolidated

Financial Statements, to measure the investments of a controlled investment entity at fair value through surplus or deficit in accordance with the Accounting Policy for Financial Instruments and consolidate the other assets and liabilities and revenue and expenses of the controlled investment entity, it shall also account for that investment in the controlled investment entity in the same way in its separate financial statements.

5. When a controlling entity ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred as follows:

a) When an entity ceases to be an investment entity, the entity shall account for an investment in a controlled entity in accordance with paragraph 2(2) of this accounting policy. The date of change of status shall be the deemed acquisition date. The fair value of the controlled entity at the deemed acquisition date shall represent the transferred deemed consideration when accounting for the investment in accordance with paragraph 2(2) of this accounting policy.
b) When an entity becomes an investment entity, it shall account for an investment in a controlled entity at fair value through surplus or deficit in accordance with the Accounting Policy for Financial Instruments. The difference between the previous carrying amount of the controlled entity and its fair value at the date of the change of status of the investor shall be recognised as a gain or loss in surplus or deficit. The cumulative amount of any gain or loss previously recognised directly in net assets/equity in respect of those controlled entities shall be treated as if the investment entity had disposed of those controlled entities at the date of change in status.

6. Dividends or similar distributions from a controlled entity, a joint venture or an associate are recognised in the separate financial statements of an entity when the entity's right to receive the dividend or similar distribution is established. The dividend or similar distribution is recognised in surplus or deficit unless the entity elects to use the equity method, in which case the dividend or similar distribution is recognised as a reduction from the carrying amount of the investment.

7. A new controlling entity shall measure cost at the carrying amount of its share of the net assets/equity items shown in the separate financial statements of the original controlling entity at the date of the reorganisation, in the case where a controlling entity reorganises the structure of its economic entity by establishing a new entity as its controlling entity in a manner that satisfies the following criteria:

a) The new controlling entity obtains control of the original controlling entity either by:

    i. issuing equity instruments in exchange for existing equity instruments of the original controlling entity or
    ii. by some other mechanism which results in the new controlling entity having a controlling ownership interest in the original controlling entity;

b) The assets and liabilities of the new economic entity and the original economic entity are the same immediately before and after the reorganisation; and
c) The owners of the original controlling entity before the reorganisation have the same absolute and relative interests in the net assets of the original economic entity and the new economic entity immediately before and after the reorganisation;

and the new controlling entity accounts for its investment in the original controlling entity in accordance with paragraph 2.2(a) of this accounting policy in its separate financial statements.

3. DISCLOSURE

1. When a controlling entity, in accordance with paragraph 3.1 of the Accounting Policy for Consolidated Financial Statements, elects not to prepare consolidated financial statements and instead prepares separate financial statements, it shall disclose in those separate financial statements:

a) The fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name of the entity whose consolidated financial statements that comply with IPSASs have been produced for public use; and the address where those consolidated financial statements are obtainable.
b) A list of significant investments in controlled entities, joint ventures and associates, including:
    i. The name of those controlled entities, joint ventures and associates.
    ii. The jurisdiction in which those controlled entities, joint ventures and associates operate (if it is different from that of the controlling entity).
    iii. Its proportion of the ownership interest held in those entities and a description of how that ownership interest has been determined.
c) A description of the method used to account for the controlled entities, joint ventures and associates listed under paragraph 3.1(b) of this accounting policy.

2. When an investment entity that is a controlling entity (other than a controlling entity covered by paragraph 3.1 of this accounting policy) prepares, in accordance with paragraph 2.1(b) of this accounting policy, separate financial statements as its only financial statements, it shall disclose that fact. The investment entity shall also present the

disclosures relating to investment entities required by the Accounting Policy for Disclosure of Interests in Other Entities.

3. If a controlling entity that is not itself an investment entity is required, in accordance with paragraph 4 of the Accounting Policy for Consolidated Financial Statements, to measure the investments of a controlled investment entity at fair value through surplus or deficit in accordance with the Accounting Policy for Financial Instruments and consolidate the other assets and liabilities and revenue and expenses of the controlled investment entity, it shall disclose that fact. The entity shall also present the disclosures relating to investment entities required by the Accounting Policy for Disclosure of Interests in Other Entities.

4. When a controlling entity (other than a controlling entity covered by paragraphs 3.1 and 3.2 of this accounting policy) or an investor with joint control of, or significant influence over, an investee prepares separate financial statements, the controlling entity or investor shall identify the financial statements prepared in accordance with the Accounting Policies for Consolidated Financial Statements, Investments in Associates and Joint Ventures or Joint Arrangements, to which they relate. The controlling entity or investor shall also disclose in its separate financial statements:

a) The fact that the statements are separate financial statements and the reasons why those statements are prepared, if not required by legislation or other authority.
b) A list of significant controlled entities, joint ventures and associates, including:
    iv. The name of those controlled entities, joint ventures and associates.
    v. The jurisdiction in which those controlled entities, joint ventures and associates operate (if it is different from that of the controlling entity).
    vi. Its proportion of the ownership interest held in those entities and a description of how that ownership interest has been determined.
c) A description of the method used to account for the controlled entities, joint ventures and associates listed under paragraph 3.4(b) of this accounting policy.

4. TRANSITIONAL PROVISIONS

1) At the date of initial application, an investment entity that previously measured its investment in a controlled entity at cost shall instead measure that investment at fair value through surplus or deficit as if the requirements of this accounting policy had always been effective. The investment entity shall adjust retrospectively the annual period immediately preceding the date of initial application and shall adjust accumulated surplus/deficit at the beginning of the immediately preceding period for any difference between:

a) The previous carrying amount of the investment; and

b) The fair value of the investor's investment in the controlled entity.

2) At the date of initial application, an investment entity that previously measured its investment in a controlled entity at fair value directly to net assets/equity shall continue to measure that investment at fair value. The cumulative amount of any fair value adjustment previously recognised in net assets/equity shall be transferred to accumulated surplus/ deficit at the beginning of the annual period immediately preceding the date of initial application.

3) At the date of initial application, an investment entity shall not make adjustments to the previous accounting for an interest in a controlled entity that it had previously elected to measure at fair value through surplus or deficit in accordance with the Accounting Policy for Financial Instruments, as permitted in paragraph 2.2 of this accounting policy.

4) An investment entity shall use the fair value amounts previously reported to investors or to management.

5) If measuring the investment in the controlled entity in accordance with paragraphs 4.1 – 4.4 of this accounting policy is impracticable (as defined in the Accounting Policy for Accounting Policies, Changes in Accounting Estimates and Errors), an investment entity shall apply the requirements of this accounting policy at the beginning of the earliest period for which application of paragraphs 4.1 – 4.4 of this accounting policy is practicable, which may be the current period. The investor shall adjust retrospectively the annual period immediately preceding the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. When the date that it is practicable for the investment entity to measure the fair value of the controlled entity is earlier than the beginning of the immediately preceding period, the investor shall adjust net assets/equity at the beginning of the immediately preceding period for any difference between:

a) The previous carrying amount of the investment; and
b) The fair value of the investor's investment in the controlled entity.

If the earliest period for which application of this paragraph is practicable is the current period, the adjustment to net assets/equity shall be recognised at the beginning of the current period.

6) At the date of initial application, a controlling entity that is not itself an investment entity but which is required, in accordance with paragraph 4 of the Accounting Policy for Consolidated Financial Statements, to measure the investments of a controlled investment entity at fair value through surplus or deficit in accordance with the Accounting Policy for Financial Instruments and consolidate the other assets and liabilities and revenue and expenses of the controlled investment entity, shall use the transitional provisions in

paragraphs 4.1 – 4.5 of this accounting policy in accounting for its investment in the controlled investment entity in its separate financial statements.

7) If a controlled entity becomes a first-time adopter later than its controlling entity, except for the controlled entity of an investment entity, the controlled entity shall, in its financial statements, measure its assets and liabilities at the carrying amounts required by IPSAS 33, based on the controlled entity's date of adoption of IPSASs.

8) If a controlling entity becomes a first-time adopter later than its controlled entity, the controlling entity shall, in its consolidated financial statements, measure the assets and liabilities of the controlled entity at the same carrying amounts as in the financial statements of the controlled entity, after adjusting for consolidation and equity accounting adjustments and for the effects of the public sector combination in which the controlling entity acquired the controlled entity. Similarly, if a controlled entity becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments.

5. EFFECTIVE DATE

This rule shall be effective for annual financial statements covering periods beginning on or after 1 January 2021.

6. REFERENCES

This accounting policy is based on the following IPSAS standards:

IPSAS 33 First – time Adoption of Accrual Basis IPSASs

IPSAS 34 Separate Financial Statements