1)

Gum **25% share** **Wattle (75 % are owned by founders)**

3 seats **2 seats**

Makes all decisions **monitor the business**

According to AASB 10 a parent entity is defined as an entity that controls one or more other entities, which are called subsidiaries. Thus, it is vital to determine which entity is a parent entity as the latter is responsible for the preparation of the consolidated financial statements.

Control is presumed to exist when the parent entity owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control.

There are 3 elements of control, all of which must be held by an investor in order to have a control over investee:

1) Power over investee;
2) Exposure, or power to variable returns from its involvement with the investee;
3) The ability to use its power over investee to affect the amount of investor's returns;

Apart from the above, for activities to be relevant they must have significant influence on the investors returns (basically the activities that affect profitability and capital of the entity)

It is clear that Gum has 25% of shares of Wattle and the rest of the share capital (75%) belongs to the company founders. Ownership of ordinary shares in the company normally provides voting rights that enable the holder to dominate the appointment of directors or entities governing bodies. Taking into account the fact that Mr and Mss Rose have more voting rights they are entitled to call for a meeting in order to appoint either a new director or new entity bodies and this will shift the power from Gum to Wattle. Subsequently, Gum potentially has no power over Wattle. However, it is essential to consider the following facts in order to determine whether the power which arises from rights exists:

1) Whether the investor can approve or appoint investee's key management personnel who direct the relevant activities;

2) Whether the investor can direct the investee to enter into contracts or veto any changes in regards to important transactions which can affect investors' returns;

3) Whether the investor can dominate the nominations process of electing members of the investees governing body;

Given that Gum takes an initiative in all decisions it is clear that Gum is literally in charge of Wattle's operations meaning Gum is capable to direct the and control the activities of Wattle. Being in charge it is are able to enter into profitable contracts that will be beneficial for the company; however Gum is not able to approve investees' key management personnel and dominate the nomination process. Consequently, by satisfying only one of the above criteria it can be said that Gum has no power over Wattle.

On the other hand, making decisions Gum has an access to variable returns and can use the given power for decisions making resulting in rising company's capital and profit. Nevertheless, even though Gum can affect returns, it is unable, unlike Mr and Mss Rose, to appoint or remove governing bodies of Wettle. According to s B37 an investor does not have power over an investee, even though the investor holds the majority of the voting rights in the investee, when those voting rights are not substantive.

Mr and Mss Rose being founders, have substantive voting rights due to their decision making nature, whereas Gums rights are not substantive. Consequently, despite the fact that Gum can influence returns and possesses more voting rights, it doesn't not have power over Wettle. This means that Wettle and Gum are two different entities and they had to prepare consolidation financial statements individually in case they would have had any subsidiaries, otherwise no consolidated financial statements will be prepared.

2) **Gum** ← **loan** **Acacia**

There is an agreement that Gum takes control of company's financial matters and executive of Gum obtained a control over Acacia's check books and payments. No seats in BOD.

In accordance with B38 IASB , an investor can have power with less than a majority of the voting rights of an investee, in case of a contractual agreement. However, Gum cannot approve or appoint investee's key management personnel who directs the business-related activities and does not have any voting rights as no share capital was obtained and no seats were obtained on Board of Directors meaning Acacia has substantive voting rights. Thus, even though a contractual agreement exists between companies and Gum is in charge of financial matters of Acacia (meaning Gum exercises a power to variable returns from its involvement with the investee) it will not have a power over Acacia. Also Gum has the right to approve the issue of equity or debt instruments and this means that Gum has protective rights only. Moreover, according to s B27 because protective rights are designed to protect the interests of their holders without giving that party power over the investee to which those rights relate, an investor that holds only protective rights cannot have power or prevent another party from having power over an investee. Consequently, Gum's activity will be considered merely from the perspective of protective rights meaning Gum just ensures that the loan will be secure and in case of wrongdoing it will be able to recover the debt. Therefore, Acacia will be considered as a parent entity and it will be responsible for the preparation of consolidated financial statement in case if it has any subsidiaries, otherwise there is no need to prepare consolidated financial statements for neither company.

3)

Box ← **50%** — **Gum (10 shares , same vote rights)**

50%

Lilly (10 shares , same vote rights)

Gum and Lilly have equal share capital in Box and have voting rights and share of seats on Board of Directors are equally distributed. In regards to Gum's rights it can be said that it has protective rights only as according to s B28(c) the right of a lender to seize the assets of a borrower if the borrower fails to meet specified loan repayment conditions is related to the protective right; while Lilly has substantive voting rights because it has no barriers which could prevent the entity from exercising its rights. This means that Lilly has higher degree of power over Box. Furthermore, Lilly possessing substantive voting rights is responsible for appointing key management who would run the business. However, considering further circumstances it can be seen that there is an agreement in accordance to which Gum supplies the finance to the company and has some returns.

According to the AASB 10 s B56 an investor has rights to variable returns from its involvement with the investee when the investor's returns from its involvement have the potential to vary as a result of the investee's performance. The interest from the loan, which is secured against the assets, is paid annually to Gum and this can be considered as variable return, because there is a risk involved and the operations of Box depending on how well the Lilly manages Box. For example, if Lilly manages Box carelessly and Box subsequently incurs losses, Box will not be able to repay the debt to Gum. Nevertheless, Gum is not able to exercise its power in order to affect the amount of returns.

On the other hand, Lilly is in charge of management and business affairs of Box and this is stipulated by the mutual agreement. This means that Lilly can actually exercise appropriate power to affect the amount of returns (make decisions which will boost the profit, whereby return in terms of fees will be increased as it directly depends on the profit). Moreover, the return can be considered as variable because fees will vary in accordance to the performance of Box.

To conclude, it is evident that while Gum holds only protective voting rights, Lil has substantive voting rights, which enables her to appoint the key management staff and determine the direction of the business. Gum provides a loan and in turn receives interest, which is considered as variable return. Also Gum is unable to exercise its power in the way that their returns (interest from the loan) will be affected, whereas Lilly by managing the company is able to exercise the power in the way that the company return (management fee) will be affected and she is able to gain a variable return (remuneration). Consequently, Lilly has a control over Box due to the fact that Gum is unable to influence Box decisions, which will lead to increase in Gum's return. This means that Lilly is a parent entity and it is responsible for the preparation of the consolidated financial statement.

4) Gum as a trustee of Gum Trading Trust.

According to IFRS a special purpose entity may be created to accomplish a narrow objective and it may take the form of a corporation, trust, partnership or unincorporated entity. Referring to the above frameworks an entity shall prepare consolidated financial statements that include the entity and any SPEs that are controlled by that entity.

It is obvious that Gum Trading Trust can be considered as special purpose entity as it falls under the definition of SPE. Moreover, Gum has a total control over Gum Trading Trust as operational and financial operations of trust are managed by Gum and all beneficiary are considered as directors of Gum . This means that Gum has a power to make all decisions, has rights to get the majority of benefits derived from Gum Trading Trust operations and all activities are being conducted on behalf of Gum according to its specific business needs. In addition, Gum retains the majority of ownership risk related to the special purpose entity or its assets. Thus, taking into account the above circumstances it is clear that Gum has a total control over Gum Trading Trust meaning Gum being a parent entity must prepare the consolidated financial statement.

5) Conversion of loan into equity item.

If loan was converted into equity this means that initially Gum had protective voting rights resulting in Gum being prevented from the controlling the investee. Afterwards, Gum obtained 75% of share capital of Orchid resulting in Gum having substantive voting rights that enable to dominate the appointment of directors or entities governing bodies, whereby Gum has power over Orchid. However, it wouldn't allow Gum to have a total control over Orchid. Also given that Gum has no seats on the board of directors and makes no decisions related to company's operations, Gum is considered as a sleeping partner because it has no participation in company's operations at all and might considered Orchid as an investment opportunity. Taking into account that Gum is a sleeping partner it can be said that it does not exercise power to variable returns from its involvement with Orchid as well as it does not have the ability to use its power over investee to affect the amount of investor's returns. Furthermore, even though Gum has the majority of voting rights, they are most likely not to be considered as substantive, because poor trading can act as an incentive, which can prevent Gum from exercising the rights. Consequently, given that Gum is a sleeping partner, it is not able to affect returns and is not involved in company's operations at all, therefore there is a high possibility that Gum does not have power over Orchid and Orchid can be treated as a parent entity. Thus, responsibility for the preparation of consolidated financial statements rests with Orchid.