



GROUPS AND CONSOLIDATED ACCOUNTS UNDER FRS 102

Issued March 2017
Last Reviewed March 2026

INTRODUCTION

This helpsheet has been issued by ICAEW's Technical Advisory Service to help ICAEW members to understand key aspects of accounting for groups under FRS 102.

This helpsheet includes references to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (September 2024) ('new FRS 102') which is effective for accounting periods beginning on or after 1 January 2026 (except for paragraphs 7.20B and 7.20C which are effective for accounting periods beginning on or after 1 January 2025). This helpsheet also includes references to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (January 2022) ('old FRS 102') which was effective for accounting periods beginning on or after 1 January 2019, or 1 January 2017 for small entities applying Section 1A, following the Triennial review 2017.

Members may also wish to refer to the following related helpsheets:

- [Is an audit required for a company?](#)
- [Exemptions from preparing group accounts and when a subsidiary can be excluded from consolidation under FRS 102](#)

Eligible members with access to Bloomsbury Professional Online may also find the following published title of use:

- [Group Accounts under UK GAAP](#)

Check whether you have access to [Bloomsbury Professional Online](#).

THE PURCHASE METHOD

Most acquisitions under old FRS 102 are accounted for using the purchase method (previously known as acquisition accounting) in accordance with paragraphs 19.6 to 19.24 and under new FRS 102 with paragraphs 19.6 to 19.24A.

The purchase method broadly requires entities to:

- identify the acquirer;
- determine the acquisition date;
- measure the cost of the business combination at the fair value of the consideration paid plus any directly attributable costs; **and**

- allocate, at the acquisition date, the cost of the business combination to the assets acquired and liabilities and provisions for contingent liabilities assumed.

Any difference between the cost of the business combination and the acquirer's interest in the net amount of the identifiable assets, liabilities and provisions for contingent liabilities is recognised as goodwill or (in very rare circumstances) 'negative' goodwill in accordance with old and new FRS 102 paragraphs 19.22 to 19.24.

Intangible assets acquired in a business combination

Guidance on accounting for intangible assets acquired in a business combination is available in the helpsheet [Accounting for intangible assets and goodwill under FRS 102](#).

Deferred tax in a business combination

As Section 29 of old and new FRS 102 takes a 'timing differences plus' approach to deferred tax, deferred tax is recognised on fair value adjustments when consolidating a subsidiary for the first time.

The identifiable assets, liabilities and contingent liabilities of the acquiree are recognised in the consolidated financial statements at their fair values at the acquisition date, but these fair values may be different from the amount which is deductible for (or liable to) corporation tax. In such cases, old and new FRS 102 paragraph 29.11 requires the recognition of deferred tax. More information is provided in the helpsheet [Deferred tax under FRS 102](#).

CHANGING HOLDINGS

Entities may change their holdings in other entities which could result in associates becoming subsidiaries, subsidiaries becoming associates or changes in a controlling interest in a subsidiary, for example. Although each case is different, a key consideration is whether control is either achieved or lost as a result of the change.

Stepped acquisition

When an entity increases its stake in a related undertaking (such as an associate) which results in it obtaining control, the purchase method is applied to the acquisition and goodwill will usually arise on the business combination.

The identifiable net assets of the subsidiary are included in the consolidation at their fair value on the date control is achieved. Goodwill is also recognised at the date control is achieved. It is generally calculated as the difference between the aggregate fair value of the consideration given at each acquisition stage and the fair value of the parent's interest in the identifiable net assets of the subsidiary at the date control is achieved.

Increasing a controlling interest in a subsidiary

Any changes in the parent's controlling interest in a subsidiary that do not result in a loss of control are treated as transactions with equity holders in their capacity as equity holders. No additional goodwill arises on the date the controlling interest increases nor are the identifiable net assets revalued to fair value.

The requirements are set out in old FRS 102 paragraph 22.19 or new FRS 102 paragraph 9.20A and can be summarised as follows:

- the carrying amount of the non-controlling interest is recalculated as the new percentage of net assets held;
- the amount paid out to (or received from) the non-controlling interest is reflected in net assets; **and**
- any difference between these two amounts is taken directly to equity (attributable to the parent) and is not shown as a gain or loss.

More information and a worked example of a parent increasing its controlling interest in a subsidiary can be found in the **FRC Staff Education Note 15: Acquisitions and disposals of subsidiaries** (Example 1).

Decreasing a controlling interest in a subsidiary

Where a parent reduces its stake in a subsidiary but retains control, the same requirements apply as when a parent increases its controlling interest.

For example, Entity P owns 80% of Entity S and agrees to sell a 10% stake to the non-controlling interest for cash consideration of £100,000. Immediately before the transaction took place, Entity S's total net assets as reported in the consolidated accounts amounted to £900,000 and the non-controlling interest was £180,000.

The double entries made in the consolidated accounts of Entity P are as follows:

Dr Cash	£100,000	
Cr NCI	£90,000	((30% x £900,000) - £180,000)
Cr Equity	£10,000	

MERGER ACCOUNTING

Merger accounting is only permissible in very specific circumstances under old and new FRS 102. FRS 102, old and new, paragraph 19.6 requires the use of the purchase method for all business combinations, except for:

- group reconstructions, which **may** be accounted for by using merger accounting (subject to meeting the specific criteria in paragraph 19.27 – **see below**); **and**
- certain business combinations involving public benefit entities, which **must** be accounted for in accordance with Section 34 Specialised Activities.

Group reconstructions

The term 'group reconstruction' is narrowly defined in old and new FRS 102 as any one of the following arrangements:

- the transfer of an equity holding in a subsidiary from one group entity to another;
- the addition of a new parent entity to a group;

- the transfer of equity holdings in one or more subsidiaries of a group to a new entity that is not a group entity but whose equity holders are the same as those of the group's parent;
- the combination into a group of two or more entities that before the combination had the same equity holders;
- the transfer of the business of one group entity to another; **or**
- the transfer of the business of one group entity to a new entity that is not a group entity but whose equity holders are the same as those of the group's parent.

Requirements of FRS 102 paragraph 19.27

Old and new FRS 102 paragraph 19.27 permits group reconstructions to be accounted for by using the merger accounting method provided:

- the use of merger accounting is not prohibited by company law or other relevant legislation ([see below](#));
- the ultimate equity holders remain the same, and the rights of each equity holder, relative to the others, are unchanged; **and**
- no non-controlling interest in the net assets of the group is altered by the transfer.

Company law requirements for merger accounting

The requirements under company law are set out in paragraph 10 of Schedule 6 in both the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) and the Small Companies and Groups (Accounts and Directors' Reports) Regulations 2008 (SI 2008/409).

The requirements are that:

- the undertaking whose shares are acquired is ultimately controlled by the same party both before and after the acquisition;
- the control referred to above is not transitory; **and**
- adoption of the merger method accords with generally accepted accounting principles or practice.

In certain common control transactions, where there is no ultimate controlling party, but the entity is ultimately controlled by the same group of people both before and after the acquisition, it may be appropriate to invoke a true and fair override to the regulations in order to apply merger accounting.

Principles of merger accounting

The principles of the merger accounting method are set out in paragraphs 19.29 to 19.32 of old and new FRS 102. In summary:

- the assets and liabilities of parties to the combination are not required to be restated to fair value (although adjustments to achieve uniformity of accounting policies may be required);
- the results and cash flows of combining entities are brought into the accounts from the beginning of the financial year in which the combination occurred; **and**

- comparatives are restated to combine the results of the combining entities for the previous period.

IF IN DOUBT SEEK ADVICE

ICAEW members, affiliates, ICAEW students and staff in eligible firms with **member firm access** can discuss their specific situation with the Technical Advisory Service on +44 (0)1908 248 250 or via **webchat**.

© ICAEW 2026 All rights reserved.

ICAEW cannot accept responsibility for any person acting or refraining to act as a result of any material contained in this helpsheet. This helpsheet is designed to alert members to an important issue of general application. It is not intended to be a definitive statement covering all aspects but is a brief comment on a specific point.

ICAEW members have permission to use and reproduce this helpsheet on the following conditions:

- This permission is strictly limited to ICAEW members only who are using the helpsheet for guidance only.
- The helpsheet is to be reproduced for personal, non-commercial use only and is not for re-distribution.

For further details members are invited to telephone the Technical Advisory Service **T** +44 (0)1908 248250. The Technical Advisory Service comprises the technical enquiries, ethics advice, anti-money laundering and fraud helplines. For further details visit icaew.com/tas