ICAEW
TECHNICAL ADVISORY SERVICE

HOW DO I ACCOUNT FOR A DIVIDEND RECEIVED FROM A SUBSIDIARY?

Issued July 2018
Last Reviewed October 2021

INTRODUCTION

This helpsheet has been issued by ICAEW's Technical Advisory Service to help ICAEW members to understand how to account for dividends received from a subsidiary in the parent's individual financial statements under FRS 102.

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

- Disclosure of related undertakings, parent entities and ultimate controlling parties
- Related party disclosures under FRS 102

ACCOUNTING TREATMENT

A question arises as to how dividends received from a subsidiary should be accounted for in the parent's individual financial statements under FRS 102, where the parent accounts for its investment in the subsidiary at cost less impairment.

Dividend is a return on the investment

Where the dividend represents a return on a parent's investment in a subsidiary (rather than a return of its investment), the dividend will usually be credited to the profit and loss account.

Under both the Small Companies and Groups (Accounts and Directors' Report) Regulations 2008 (SI 2008/409) and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410), the profit and loss account formats (format 1) include 'Income from shares in group undertakings'. This is where such dividends received form subsidiaries would usually be presented.

FRS 102 paragraph 23.29 requires dividends to be recognised when the shareholder's right to receive payment is established.

Dividend is a return of the investment

Where the dividend is a return of the investment, which leads to a diminution in value of the investment, for example, where a material dividend is paid to a parent shortly after a subsidiary is acquired, or where the dividend is one of a series of transactions designed to liquidate the subsidiary, there are two potential treatments:

- Credit the dividend to the profit and loss account (in the same way as for a dividend which is a return on the investment) and separately record an impairment write down of the investment in subsidiary; **or**
- Credit the dividend against the cost of investment in the subsidiary, reducing its carrying amount.

Whilst either approach is acceptable, and views may differ, the second approach appears to more faithfully reflect the substance of the transaction.

Combination

In some cases, more than one treatment may be appropriate, for example, where the dividend partly represents a return on the investment and partly represents a return of the investment which leads to a diminution in value of the investment.

In such cases careful judgement will be required and decisions should be clearly documented.

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.