IFRS AT A GLANCE

IAS 28 *Investments in Associates*

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Superseded by IAS 28 *Investments in Associates and Joint Ventures* for periods beginning on or after 1 January 2013

SCOPE

IAS 28 applies to all investments in associates except those held by venture capital organisations or mutual funds, unit trusts or similar entities that upon initial recognition designate them at fair value through profit and loss or as held for trading in accordance with IAS 39.

DEFINITIONS

An associate is:

- An entity, including an unincorporated entity such as a partnership
- Over which the investor has significant influence
- That is neither a subsidiary nor an interest in a joint venture.

Significant influence is:

- Power to participate in financial & operating policy decisions of the investee
- But is not control or joint control over those policies.

The equity method is:

- A method of accounting whereby the investment is initially recognised at cost
- Adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee (IAS 28.2)
- The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

APPLICATION

SIGNIFICANT INFLUENCE

- Rebuttable presumption that between 20% - 50% shareholding gives rise to significant influence
- Significant influence is usually evidenced in one or more of the following ways:
  - Representation on the board of directors or equivalent governing body of the investee
  - Participation in policy-making processes, including participation in decisions about dividends or other distributions
  - Material transactions between the investor and the investee
  - Interchange of managerial personnel
  - Provision of essential technical information.
- Potential voting rights have to be considered when management assesses whether it has significant influence
- Significant influence ceases once an entity loses its power to participate in the financial and operating policy decisions.

SEPARATE FINANCIAL STATEMENTS

- Cost less impairment losses or fair value in terms of IAS 39 – *Financial Instruments: Recognition and Measurement*
- Treated as Non-current asset Held for Sale (IFRS 5) if the investment meets the definition of 'Held for sale'.

EQUITY METHOD

- The investment in an associate is initially recognised at cost
- Subsequently, the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition (IAS 28.11):
  - The investor's share of the profit or loss of the investee is recognised in the investor's profit or loss
  - Distributions received from an investee reduce the carrying amount of the investment
  - Adjustments to the carrying amount may also arise from changes in the investee's equity, for example the revaluation of property, plant and equipment and foreign exchange translation differences. The investor's share of those changes is recognised directly in equity of the investor
  - An investment in an associate that meets the definition of a 'non-current asset held for sale' should be recognised in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.*
- The investor uses the equity method to account for its investment in the associate from the date significant influence arises, to the date significant influence ceases.

EXEMPTION FROM EQUITY METHOD

- The investor is a wholly owned subsidiary and the owners have been informed about the decision
- The investor's debt or equity instruments are not publicly traded
- The investor did not file its financial statements with a securities commission or other regulator for the purposes of issuing its shares to the public
- The ultimate or intermediate parent of the investor produces consolidated financial statements that comply with IFRS.

CONSIDERATIONS TO NOTE

- Potential voting rights are taken in into account to determine whether significant influence exists, but equity accounting is based on present ownership interest at the reporting date
- Financial statements reporting date of the investor and investee used for equity accounting must not differ by more than 3 months in terms of the reporting date
- The investor's share in the associate's profits and losses resulting from transactions with the associate are eliminated in the equity accounted financial statements of the parent
- Use uniform accounting policies for like transactions and other events in similar circumstances
- If an investor's share of losses of an associate exceeds its interest in the associate, the investor discontinues recognising its share of further losses (unless it has a future obligation to fund losses)
- The interest in an associate is the carrying amount of the investment in the associate under the equity method together with any long-term interests that, in substance, form part of the investor's net investment in the associate. For example, a loan for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that associate.

DISCOLSURES

- The disclosures required by IAS 28 are provided in paragraph 37 – 40.

For further information about how BDO can assist you and your organisation, please get in touch with one of our key contacts listed below. Alternatively, please visit www.bdointernational.com/Services/Audit/IFRS/IFRS Country Leaders where you can find full lists of regional and country contacts.

Europe

Caroline Allouët	France	caroline.allouet@bdo.fr
Jens Freiberg	Germany	jens.freiberg@bdo.de
Teresa Morahan	Ireland	tmorahan@bdo.ie
Ehud Greenberg	Israel	ehudg@bdo.co.il
Ruud Vergoossen	Netherlands	ruud.vergoossen@bdo.nl
Reidar Jensen	Norway	reidar.jensen@bdo.no
Maria Sukonkina	Russia	m.sukonkina@bdo.ru
René Krügel	Switzerland	rene.kruegel@bdo.ch
Brian Creighton	United Kingdom	brian.creighton@bdo.co.uk

Asia Pacific

Wayne Basford	Australia	wayne.basford@bdo.com.au
Zheng Xian Hong	China	zheng.xianhong@bdo.com.cn
Fanny Hsiang	Hong Kong	fannyhsiang@bdo.com.hk
Khoon Yeow Tan	Malaysia	tanky@bdo.my

Latin America

Marcelo Canetti	Argentina	mcanetti@bdoargentina.com
Luis Pierrend	Peru	lpierrend@bdo.com.pe
Ernesto Bartesaghi	Uruguay	ebartesaghi@bdo.com.uy

North America & Caribbean

Armand Capisciolto	Canada	acapisciolto@bdo.ca
Wendy Hambleton	USA	whambleton@bdo.com

Middle East

Arshad Gadit	Bahrain	arshad.gadit@bdo.bh
Antoine Gholam	Lebanon	agholam@bdo-lb.com

Sub Saharan Africa

Nigel Griffith	South Africa	ngriffith@bdo.co.za

www.bdointernational.com