

Exposure Draft

Accounting Standard (AS) 23 (Revised 20XX)

(Corresponding to IAS 28)

Investments in Associates

(Last date for Comments: May 10, 2010)



Issued by
Accounting Standards Board

The Institute of Chartered Accountants of India

Exposure Draft

Accounting Standard (AS) 23 (Revised 20XX)
(Corresponding to IAS 28)

Investments in Associates

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Exposure Draft

Accounting Standard (AS) 23 (Revised 20XX)¹ (Corresponding to IAS 28)

Investments in Associates

Following is the Exposure Draft of the Accounting Standard (AS) 23 (Revised 20XX), Investments in Associates, issued by the Accounting Standards Board of the Institute of Chartered Accountants of India, for comments. The Board invites comments on any aspect of this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

*Comments should be submitted in writing to the Secretary, Accounting Standards Board. The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002, so as to be received not later than **May 10, 2010**. Comments can also be sent by e-mail at edcommentsasb@icai.org or asb@icai.org.*

*(This Exposure Draft of the revised Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles. This Exposure Draft of the revised Accounting Standard should be read in the context of its objective and the Preface to the Statements of Accounting Standards²)*

Scope

- 1 This Standard shall be applied in accounting for investments in associates. However, it does not apply to investments in associates held by:**
 - a. venture capital organisations, or**
 - b. mutual funds, unit trusts and similar entities including investment-linked**

¹ This Exposure Draft is issued pursuant to the decision to converge with IFRSs in respect of accounting periods commencing on or after April 1, 2011. All existing Accounting Standards and new Accounting Standards which are referred to in this Exposure Draft are also being revised or formulated, as the case may be, to converge with IFRSs from the aforesaid date. References to the other standards may be viewed accordingly.

² Attention is specifically drawn to paragraph 4.3 of the Preface, according to which accounting standards are intended to apply only to items which are material.

insurance funds

that upon initial recognition are designated as at fair value through profit or loss or are classified as held for trading and accounted for in accordance with AS 30 (Revised 20XX) *Financial Instruments: Recognition and Measurement*. Such investments shall be measured at fair value in accordance with AS 30 (Revised 20XX), with changes in fair value recognised in profit or loss in the period of the change. An entity holding such an investment shall make the disclosures required by paragraph 37(f).

Definitions

2 The following terms are used in this Standard with the meanings specified:

An *associate* is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

Consolidated financial statements are the financial statements of a group presented as those of a single economic entity.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The *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 net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Separate financial statements are those presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

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

A *subsidiary* is an entity, including an unincorporated entity such as a

partnership, that is controlled by another entity (known as the parent).

- 3 Financial statements in which the equity method is applied are not separate financial statements, nor are the financial statements of an entity that does not have a subsidiary, associate or venturer's interest in a joint venture.
- 4 Separate financial statements are those presented in addition to consolidated financial statements, financial statements in which investments are accounted for using the equity method and financial statements in which venturers' interests in joint ventures are proportionately consolidated. Separate financial statements may or may not be appended to, or accompany, those financial statements.
- 5 Entities that are exempted in accordance with paragraph 10 of AS 21 (Revised 20XX) *Consolidated and Separate Financial Statements* from consolidation, paragraph 2 of AS 27 (Revised 20XX) *Interests in Joint Ventures* from applying proportionate consolidation or paragraph 13(c) of this Standard from applying the equity method may present separate financial statements as their only financial statements.

Significant influence

- 6 If an investor holds, directly or indirectly (eg through subsidiaries), 20 per cent or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly (eg through subsidiaries), less than 20 per cent of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence.
- 7 The existence of significant influence by an investor is usually evidenced in one or more of the following ways:
 - a. representation on the board of directors or equivalent governing body of the investee;
 - b. participation in policy-making processes, including participation in decisions about dividends or other distributions;
 - c. material transactions between the investor and the investee;
 - d. interchange of managerial personnel; or
 - e. provision of essential technical information.

- 8 An entity may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares³, or other similar instruments that have the potential, if exercised or converted, to give the entity additional voting power or reduce another party's voting power over the financial and operating policies of another entity (ie potential voting rights). The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether an entity has significant influence. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.
- 9 In assessing whether potential voting rights contribute to significant influence, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual arrangements whether considered individually or in combination) that affect potential rights, except the intention of management and the financial ability to exercise or convert.
- 10 An entity loses significant influence over an investee when it loses the power to participate in the financial and operating policy decisions of that investee. The loss of significant influence can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when an associate becomes subject to the control of a government, court, administrator or regulator. It could also occur as a result of a contractual agreement.

Equity method

- 11 Under the equity method, the investment in an associate is initially recognised at cost and 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. 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 be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognised in other comprehensive income of the investor (see AS 1 (Revised 20XX) *Presentation of Financial Statements*).
- 12 When potential voting rights exist, the investor's share of profit or loss of the investee and of changes in the investee's equity is determined on the basis of present ownership interests and does not reflect the possible exercise or conversion of potential voting rights.

³ In Indian context, the term 'ordinary shares' is equivalent to 'equity shares'.

Application of the equity method

- 13** An investment in an associate shall be accounted for using the equity method except when:
- a. the investment is classified as held for sale in accordance with AS 24 (Revised 20XX) *Non-current Assets Held for Sale and Discontinued Operations*;
 - b. the exception in paragraph 10 of AS 21 (Revised 20XX), allowing a parent that also has an investment in an associate not to present consolidated financial statements, applies; or
 - c. all of the following apply:
 - i. the investor is a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the investor not applying the equity method;
 - ii. The investor's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
 - iii. the investor did not file, nor is it in the process of filing, its financial statements with a Securities Regulator or other regulatory organisation, for the purpose of issuing any class of instruments in a public market; and
 - iv. the ultimate or any intermediate parent of the investor produces consolidated financial statements available for public use that comply with Accounting Standards.
- 14** Investments described in paragraph 13(a) shall be accounted for in accordance with AS 24 (Revised 20XX) *Non-current Assets Held for Sale and Discontinued Operations*
- 15** When an investment in an associate previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for using the equity method as from the date of its classification as held for sale. Financial statements for the periods since classification as held for sale shall be amended accordingly.

- 16 [Deleted]
- 17 The recognition of income on the basis of distributions received may not be an adequate measure of the income earned by an investor on an investment in an associate because the distributions received may bear little relation to the performance of the associate. Because the investor has significant influence over the associate, the investor has an interest in the associate's performance and, as a result, the return on its investment. The investor accounts for this interest by extending the scope of its financial statements to include its share of profits or losses of such an associate. As a result, application of the equity method provides more informative reporting of the net assets and profit or loss of the investor.
- 18 An investor shall discontinue the use of the equity method from the date that it ceases to have significant influence over an associate and shall account for the investment in accordance with AS 30 (Revised 20XX) from that date, provided the associate does not become a subsidiary or a joint venture as defined in AS 27 (Revised 20XX). On the loss of significant influence, the investor shall measure at fair value any investment the investor retains in the former associate. The investor shall recognise in profit or loss any difference between:**
- a. the fair value of any retained investment and any proceeds from disposing of the part interest in the associate; and**
 - b. the carrying amount of the investment at the date when significant influence is lost.**
- 19 When an investment ceases to be an associate and is accounted for in accordance with AS 30 (Revised 20XX), the fair value of the investment at the date when it ceases to be an associate shall be regarded as its fair value on initial recognition as a financial asset in accordance with AS 30 (Revised 20XX).**
- 19A If an investor loses significant influence over an associate, the investor shall account for all amounts recognised in other comprehensive income in relation to that associate on the same basis as would be required if the associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by an associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the investor reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over the associate. For example, if an associate has available-for-sale financial assets and the investor loses significant influence over the associate, the investor shall reclassify to profit or loss the gain or loss previously recognised in other comprehensive income in relation to those assets. If an investor's ownership interest in an associate is reduced, but the investment continues to be an

associate, the investor shall reclassify to profit or loss only a proportionate amount of the gain or loss previously recognised in other comprehensive income.

- 20 Many of the procedures appropriate for the application of the equity method are similar to the consolidation procedures described in AS 21 (Revised 20XX). Furthermore, the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate.
- 21 A group's share in an associate is the aggregate of the holdings in that associate by the parent and its subsidiaries. The holdings of the group's other associates or joint ventures are ignored for this purpose. When an associate has subsidiaries, associates, or joint ventures, the profits or losses and net assets taken into account in applying the equity method are those recognised in the associate's financial statements (including the associate's share of the profits or losses and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies (see paragraphs 26 and 27).
- 22 Profits and losses resulting from 'upstream' and 'downstream' transactions between an investor (including its consolidated subsidiaries) and an associate are recognised in the investor's financial statements only to the extent of unrelated investors' interests in the associate. 'Upstream' transactions are, for example, sales of assets from an associate to the investor. 'Downstream' transactions are, for example, sales of assets from the investor to an associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated.
- 23 An investment in an associate is accounted for using the equity method from the date on which it becomes an associate. On acquisition of the investment any difference between the cost of the investment and the investor's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as follows:
 - a. goodwill relating to an associate is included in the carrying amount of the investment. Amortisation of that goodwill is not permitted.
 - b. any excess of the investor's share of the net fair value of the associate's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the investor's share of the associate's profit or loss in the period in which the investment is acquired. This treatment recognises that, in rare cases, acquisition of an investment at less than the net fair value of the associate's identifiable assets and liabilities is a bargain purchase.

Appropriate adjustments to the investor's share of the associate's profits or losses after acquisition are also made to account, for example, for depreciation of the depreciable assets based on their fair values at the acquisition date. Similarly, appropriate adjustments to the investor's share of the associate's

profits or losses after acquisition are made for impairment losses recognised by the associate, such as for goodwill or property, plant and equipment.

- 24 The most recent available financial statements of the associate are used by the investor in applying the equity method. When the end of the reporting period of the investor is different from that of the associate, the associate prepares, for the use of the investor, financial statements as of the same date as the financial statements of the investor unless it is impracticable to do so.**
- 25 When, in accordance with paragraph 24, the financial statements of an associate used in applying the equity method are prepared as of a different date from that of the investor, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the investor's financial statements. In any case, the difference between the end of the reporting period of the associate and that of the investor shall be no more than three months unless it is impracticable to do so. The length of the reporting periods and any difference in the ends of the reporting periods shall be the same from period to period.**
- 26 The investor's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances.**
- 27 If an associate uses accounting policies other than those of the investor for like transactions and events in similar circumstances, adjustments shall be made to conform the associate's accounting policies to those of the investor when the associate's financial statements are used by the investor in applying the equity method.
- 28 If an associate has outstanding cumulative preference shares that are held by parties other than the investor and classified as equity, the investor computes its share of profits or losses after adjusting for the dividends on such shares, whether or not the dividends have been declared.
- 29 If an investor's share of losses of an associate equals or exceeds its interest in the associate, the investor discontinues recognising its share of further 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, an item 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. Such items may include preference shares and long-term receivables or loans but do not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists, such as secured loans. Losses recognised under the equity method in excess of the investor's investment in ordinary shares are applied to the other components of the investor's interest in

an associate in the reverse order of their seniority (ie priority in liquidation).

- 30 After the investor's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Impairment losses

- 31 After application of the equity method, including recognising the associate's losses in accordance with paragraph 29, the investor applies the requirements of AS 30 (Revised 20XX) to determine whether it is necessary to recognise any additional impairment loss with respect to the investor's net investment in the associate.
- 32 The investor also applies the requirements of AS 30 (Revised 20XX) to determine whether any additional impairment loss is recognised with respect to the investor's interest in the associate that does not constitute part of the net investment and the amount of that impairment loss.
- 33 Because goodwill that forms part of the carrying amount of an investment in an associate is not separately recognised, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in AS 28 (Revised 20XX) *Impairment of Assets*. Instead, the entire carrying amount of the investment is tested for impairment in accordance with AS 28 (Revised 20XX) as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of the requirements in AS 30 (Revised 20XX) indicates that the investment may be impaired. An impairment loss recognised in those circumstances is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Accordingly, any reversal of that impairment loss is recognised in accordance with AS 28 (Revised 20XX) to the extent that the recoverable amount of the investment subsequently increases. In determining the value in use of the investment, an entity estimates:
- a. its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or
 - b. the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Under appropriate assumptions, both methods give the same result.

- 34 The recoverable amount of an investment in an associate is assessed for each associate, unless the associate does not generate cash inflows from continuing use that are largely independent of those from other assets of the entity.

Separate financial statements

- 35 An investment in an associate shall be accounted for in the investor's separate financial statements in accordance with paragraphs 38-43 of AS 21 (Revised 20XX).
- 36 This Standard does not mandate which entities produce separate financial statements available for public use.

Disclosure

- 37 The following disclosures shall be made:
- a. the fair value of investments in associates for which there are published price quotations;
 - b. summarised financial information of associates, including the aggregated amounts of assets, liabilities, revenues and profit or loss;
 - c. the reasons why the presumption that an investor does not have significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, less than 20 per cent of the voting or potential voting power of the investee but concludes that it has significant influence;
 - d. the reasons why the presumption that an investor has significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, 20 per cent or more of the voting or potential voting power of the investee but concludes that it does not have significant influence;
 - e. the end of the reporting period of the financial statements of an associate, when such financial statements are used in applying the equity method and are as of a date or for a period that is different from that of the investor, and the reason for using a different date or different period;
 - f. the nature and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of associates to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances;
 - g. the unrecognised share of losses of an associate, both for the period and

cumulatively, if an investor has discontinued recognition of its share of losses of an associate;

- h. the fact that an associate is not accounted for using the equity method in accordance with paragraph 13; and
 - i. summarised financial information of associates, either individually or in groups, that are not accounted for using the equity method, including the amounts of total assets, total liabilities, revenues and profit or loss.
- 38 Investments in associates accounted for using the equity method shall be classified as non-current assets. The investor's share of the profit or loss of such associates, and the carrying amount of those investments, shall be separately disclosed. The investor's share of any discontinued operations of such associates shall also be separately disclosed.**
- 39 The investor's share of changes recognised in other comprehensive income by the associate shall be recognised by the investor in other comprehensive income.**
- 40 In accordance with AS 29 (Revised 20XX) *Provisions, Contingent Liabilities and Contingent Assets* the investor shall disclose:**
- a. its share of the contingent liabilities of an associate incurred jointly with other investors; and
 - b. those contingent liabilities that arise because the investor is severally liable for all or part of the liabilities of the associate.

Effective date

- 41 An entity to which this Accounting Standard is applicable shall apply it for accounting periods commencing on or after the date (to be announced separately) 1st April 2011 and will be mandatory in nature⁴ from that date.**

Withdrawal of other pronouncements

- 42 This Standard supersedes AS 23 *Accounting for Investments in Associates in Consolidated Financial Statements* (Issued 2001) in respect of the entities to which this Accounting Standard is applicable.**

⁴ This implies that, while discharging their attest function, it will be the duty of the members of the Institute to examine whether this Accounting Standard is complied with in the presentation of financial statements covered by their audit. In the event of any deviation from this Accounting Standard, it will be their duty to make adequate disclosures in their audit reports so that the users of financial statements may be aware of such deviations.

Appendix A

References to matters contained in other Accounting Standards

This Appendix is an integral part of Accounting Standard 23 (Revised 20XX).

1. Appendix A, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (Corresponding to IFRIC 5) contained in AS 29 *Provisions, Contingent Liabilities and Contingent Assets* (Revised 20XX) makes reference to this Standard also.

Appendix B

Conflicting Legal and Regulatory Issues

Note: This Appendix is not a part of the Accounting Standard (AS) 23 (Revised 20XX) Investments in Associates. Some of the situations or accounting treatments prescribed in AS 23 (Revised 20XX) may not be in conformity with the present requirements of applicable laws/regulations in the country. In such cases, the provisions of the applicable laws/regulations will prevail. This Appendix contains the following such instances.

Conflicting Issues with Companies Act, 1956

(i) Definition of control given in the Exposure Draft of AS 23 (Revised 20XX) is different from the holding-subsidary relationship defined under section 4(1) of the Companies Act, 1956, which defines that a company shall be deemed to be a subsidiary of another on the basis of composition of board of directors or holding of more than half of the nominal value of the equity share capital. The Exposure Draft of AS 23 (Revised 20XX) defines control as the power to govern the financial and operating policies of another company, though it may not have current control over the composition of board of directors or may not currently hold more than half of the nominal value of the equity capital of the other company.

Appendix C

Note: This Appendix is not a part of the Accounting Standard. The purpose of this appendix is only to bring out the major differences between the Exposure Draft of Accounting Standard 23 (Revised 20XX) and the corresponding International Accounting Standard (IAS) 28, Investments in Associates.

Comparison with IAS 28, *Investments in Associates*

The Exposure Draft of the AS 23 (Revised 20XX) is based on International Accounting Standard (IAS) 28, *Investments in Associates*, issued by the International Accounting Standards Board (IASB). There is no major difference between the Exposure Draft of AS 23 (Revised 20XX) and IAS 28 except that where the financial statements of an associate used in applying equity method are prepared as of a different date from that of the investor, IAS 28 requires that this difference should not be more than three months. However, the Exposure Draft of AS 23 (Revised 20XX) provides that this difference should not be more than three months, unless impracticable. This change has been made because there can be a situation, e.g., where an entity is an associate of two investors and difference between the reporting dates of the associate and one of the investors is more than three months. In that case, a problem will arise in applying the requirements of IAS 28 that the associate will have to prepare additional financial statements for use by the concerned investor. Since the investor does not have 'control' over the associate, the investor may not be able to influence the associate to prepare additional financial statements. Therefore, to cover such situations, the words 'unless it is impracticable to do so' have been added.

Appendix D

Note: This Appendix is provided to bring out the major differences between the Exposure Draft of AS 23(Revised 20XX) and existing AS 23 (Issued 2001) with a view to facilitate commentators in sending their comments on the Exposure Draft of AS 23 (Revised 20XX).

Major differences between the Exposure Draft of AS 23 (Revised 20XX), *Investments in Associates*, and existing AS 23 (issued 2001)

1. The Exposure Draft of AS 23 (Revised 20XX) excludes from its scope, investments in associates held by venture capital organisations, mutual funds, unit trusts and similar entities including investment-linked insurance funds, which are treated in accordance with AS 30 (Revised 20XX) *Financial Instruments: Recognition and Measurement*. The existing AS 23 does not make such exclusion. This difference has, however, been removed vide limited revision issued as a consequence to issuance of AS 30, which has become recommendatory from 1.4.2009.
2. As per the definition given in the Exposure Draft of AS 23 (Revised 20XX), control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The definition of control given in the existing AS 23 is rule-based, which requires the ownership, directly or indirectly through subsidiary(ies), of more than half of the voting power of an enterprise; or control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other entity so as to obtain economic benefits from its activities.
3. In the existing AS 23, 'Significant Influence' has been defined as 'power to participate in the financial *and/or* operating policy decisions of the investee but is not control over those policies'. In the Exposure Draft of AS 23 (Revised 20XX), the same has been defined as 'power to participate in the financial *and* operating policy decisions of the investee but is not control *or joint control* over those policies'. The Exposure Draft of AS 23 (Revised 20XX) defines the joint control also.
4. For considering share ownership for the purpose of significant influence, potential equity shares of the investee held by investor are not taken into account as per the existing AS 23. As per the Exposure Draft of AS 23 (Revised 20XX), existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether an entity has significant influence or not.
5. One of the exemptions from applying equity method in the existing AS 23 is where the associate operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investee. No such exemption is provided in the Exposure Draft of AS 23 (Revised 20XX). The Exposure Draft of AS 23 (Revised 20XX)

further provides exemption from application of the equity method where investor is a wholly owned or a partially owned subsidiary of another entity and its other owners do not object to not applying equity method, where investor's debt or equity are not publicly traded, where the investor did not file, nor is it in the process of filing, its financial statements with a Securities Regulator or other regulatory organisation, for the purpose of issuing any class of instruments in a public market, and where ultimate or intermediate parent of investor prepares consolidated financial statements as per Accounting Standards.

An explanation has been given in existing AS 23 regarding the term 'near future' used in another exemption from applying equity method, ie, where the investment is acquired and held exclusively with a view to its subsequent disposal in the near future. This explanation has not been given in the Exposure Draft of AS 23 (Revised 20XX), as such situations are covered by AS 24 (Revised 20XX), *Non-current Assets Held for Sale and Discontinued Operations*.

6. As per the existing AS 23, where investment in an associate is not accounted for as per the equity method, the same is accounted for in accordance with existing AS 13, *Accounting for investments*. As per the Exposure Draft of AS 23 (Revised 20XX), where investment in an associate is not accounted for as per equity method, the same is to be accounted for in accordance with AS 30(Revised 20XX) *Financial Instruments; Recognition and Measurement*. This difference has, however, been removed vide limited revision issued as a consequence to issuance of AS 30, which has become recommendatory from 1.4.2009.

7. As per the existing AS 23, on acquisition of the investment in an associate, any difference between the cost of acquisition and investor's share of equity of the associate is described as goodwill/Capital reserve, and the same is included in the carrying amount of investment in the associate but disclosed separately. For calculating goodwill/capital reserve, equity of the associate is determined on the basis of carrying amounts of assets and liabilities on the date of acquisition.

As per the Exposure Draft of AS 23 (Revised 20XX), on acquisition of the investment in associate, any difference between the cost of acquisition and investor's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as follows:

- (i) Goodwill relating to an associate is included in the carrying amount of the investment.
- (ii) Any excess of the investor's share of the net fair value of the associate's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the investor's share of the associate's profit or loss in the period in which the investment is acquired.

8. The existing AS 23 permits the use of financial statements of the associate drawn upto a date different from the date of financial statements of the investor when it is impracticable to draw the financial statements of the associate upto the date of the financial statements of the investor. There is no limit on the length of difference in the reporting dates of the investor and the associate. As per the Exposure Draft of AS 23 (Revised 20XX), length of difference in the reporting dates of the investor and the associate should not be more than three months unless it is impracticable.

9. Both the existing AS 23 and the Exposure Draft of AS 23 (Revised 20XX) require that similar accounting policies should be used for preparation of investor's financial statements and in case an associate uses different accounting policies for like transactions, appropriate adjustments shall be made to the accounting policies of the associate. The existing AS 23 provides exemption to this that if it is not possible to make adjustments to the accounting policies of the associate, the fact shall be disclosed along with a brief description of the differences between the accounting policies. This exemption is not available under the Exposure Draft of AS 23 (Revised 20XX).

10. As per existing AS 23, investor's share of losses in the associate is recognised to the extent of carrying amount of investment in the associate. As per the Exposure Draft of AS 23 (Revised 20XX), carrying amount of investment in the associate as well as its other long term interests in the associate that, in substance form part of the investor's net investment in the associate shall be considered for recognising investor's share of losses in the associate.

11. With regard to impairment, the existing AS 23 requires that the carrying amount of investment in an associate should be reduced to recognise a decline, other than temporary, in the value of the investment. The Exposure Draft of AS 23 (Revised 20XX) requires that after application of equity method, including recognising the associate's losses, the requirements of AS 30 (Revised 20XX) shall be applied to determine whether it is necessary to recognise any additional impairment loss. This difference has, however, been removed vide limited revision issued as a consequence to issuance of AS 30, which has become recommendatory from 1.4.2009.

12. The Exposure Draft of AS 23 (Revised 20XX) requires more disclosures as compared to the existing AS 23.