

Exposure Draft

Indian Accounting Standard (Ind AS) 28

Investments in Associates and Joint Ventures (as amended)

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Accounting Standards Board

The Institute of Chartered Accountants of India

Exposure Draft

Indian Accounting Standard (Ind AS) 28 Investments in Associates and Joint Ventures (as amended)

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Exposure Draft

Indian Accounting Standard (Ind AS) 28 (as amended)

Investments in Associates and Joint Ventures

Following is the Exposure Draft of the Indian Accounting Standard (Ind AS) 28, Investments in Associates and Joint Ventures (as amended), 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 **October 15, 2011**. Comments can also be sent by e-mail at edcommentsasb@icai.org or asb@icai.org.*

*(This Exposure Draft of the Indian 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 Indian Accounting Standard should be read in the context of its objective and the Preface to the Statements of Accounting Standards¹)*

Objective

1 The objective of this Standard is to prescribe the accounting for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

Scope

2 This Standard shall be applied by all entities that are investors with joint control of, or significant influence over, an investee.

¹ 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.

Definitions

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

An associate is an entity over which the investor has significant influence.

Consolidated financial statements are the financial statements of a group in which assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.

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 the investee's net assets. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income.

A joint arrangement is an arrangement of which two or more parties have joint control.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

A joint venturer is a party to a joint venture that has joint control of that joint venture.

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

4 The following terms are defined in paragraph 4 of Ind AS 27 *Separate Financial Statements* and in Appendix A of Ind AS 110 *Consolidated Financial Statements* and are used in this Standard with the meanings specified in the Ind ASs in which they are defined:

- control of an investee
- group
- parent
- separate financial statements
- subsidiary.

Significant influence

5 If an entity holds, directly or indirectly (e.g. through subsidiaries), 20 per cent or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the entity holds, directly or indirectly (e.g. through subsidiaries), less than 20 per cent of the voting power of the investee, it is presumed that the entity 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 entity from having significant influence.

6 The existence of significant influence by an entity 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 entity and its investee;
- (d) interchange of managerial personnel; or
- (e) provision of essential technical information.

7 An entity may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar instruments that have the potential, if exercised or converted, to give the entity additional voting power or to reduce another party's voting power over the financial and operating policies of another entity (i.e. 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.

8 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 intentions of management and the financial ability to exercise or convert those potential rights.

9 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 arrangement.

Equity method

10 Under the equity method, on initial recognition the investment in an associate or a joint venture is 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 investee's profit or loss 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 the investor's other comprehensive income (see Ind AS 1 *Presentation of Financial Statements*).

11 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 or a joint venture because the distributions received may bear little relation to the performance of the associate or joint venture. Because the investor has joint control of, or significant influence over, the investee, the investor has an interest in the associate's or joint venture'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 the profit or loss of such an investee. As a result, application of the equity method provides more informative reporting of the investor's net assets and profit or loss.

12 When potential voting rights or other derivatives containing potential voting rights exist, an entity's interest in an associate or a joint venture is determined solely on the basis of existing ownership interests and does not reflect the possible exercise or conversion of potential voting rights and other derivative instruments, unless paragraph 13 applies.

13 In some circumstances, an entity has, in substance, an existing ownership as a result of a transaction that currently gives it access to the returns associated with an ownership interest. In such circumstances, the proportion allocated to the entity is determined by taking into account the eventual exercise of those potential voting rights and other derivative instruments that currently give the entity access to the returns.

14 Ind AS 39 *Financial Instruments: Recognition and Measurement* does not apply to interests in associates and joint ventures that are accounted for using the equity method. When instruments containing potential voting rights in substance currently give access to the returns associated with an ownership interest in an associate or a joint venture, the instruments are not

subject to Ind AS 39. In all other cases, instruments containing potential voting rights in an associate or a joint venture are accounted for in accordance with Ind AS 39.

15 Unless an investment, or a portion of an investment, in an associate or a joint venture is classified as held for sale in accordance with Ind AS 105 *Non-current Assets Held for Sale and Discontinued Operations*, the investment, or any retained interest in the investment not classified as held for sale, shall be classified as a non-current asset.

Application of the equity method

16 An entity with joint control of, or significant influence over, an investee shall account for its investment in an associate or a joint venture using the equity method except when that investment qualifies for exemption in accordance with paragraphs 18–19.

Exemptions from applying the equity method

17 (Refer Appendix 1).

18 When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, the entity may elect to measure investments in those associates and joint ventures at fair value through profit or loss in accordance with Ind AS 39.

19 When an entity has an investment in an associate, a portion of which is held indirectly through a venture capital organization, the entity may elect to measure that portion of the investment in the associate at fair value through profit or loss in accordance with Ind AS 39 regardless of whether the venture capital organisation has significant influence over that portion of the investment. If the entity makes that election, the entity shall apply the equity method to any remaining portion of its investment in an associate that is not held through a venture capital organisation.

Classification as held for sale

20 An entity shall apply Ind AS 105 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method until disposal of the portion that is classified as held for sale takes place. After the disposal takes place, an entity shall account for any retained interest in the associate or joint venture in accordance with Ind AS 39 unless the retained interest continues to be an associate or a joint venture, in which case the entity uses the equity method.

21 When an investment, or a portion of an investment, in an associate or a joint venture previously classified as held for sale no longer meets the criteria to be so classified, it shall be

accounted for using the equity method retrospectively 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.

Discontinuing the use of the equity method

22 An entity shall discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture as follows:

(a) If the investment becomes a subsidiary, the entity shall account for its investment in accordance with Ind AS 103 *Business Combinations* and Ind AS 110.

(b) If the retained interest in the former associate or joint venture is a financial asset, the entity shall measure the retained interest at fair value. The fair value of the retained interest shall be regarded as its fair value on initial recognition as a financial asset in accordance with Ind AS 39. The entity shall recognise in profit or loss any difference between:

(i) the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture; and

(ii) the carrying amount of the investment at the date the equity method was discontinued.

(c) When an entity discontinues the use of the equity method, the entity shall account for all amounts previously recognised in other comprehensive income in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities.

23 Therefore, if a gain or loss previously recognised in other comprehensive income by the investee would be reclassified to profit or loss on the disposal of the related assets or liabilities, the entity reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued. For example, if an associate or a joint venture has cumulative exchange differences relating to a foreign operation and the entity discontinues the use of the equity method, the entity shall reclassify to profit or loss the gain or loss that had previously been recognised in other comprehensive income in relation to the foreign operation.

24 If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.

Changes in ownership interest

25 If an entity's ownership interest in an associate or a joint venture is reduced, but the entity continues to apply the equity method, the entity shall reclassify to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

Equity method procedures

26 Many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in Ind AS 110. 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 or a joint venture.

27 A group's share in an associate or a joint venture is the aggregate of the holdings in that associate or joint venture 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 or a joint venture has subsidiaries, associates or joint ventures, the profit or loss, other comprehensive income and net assets taken into account in applying the equity method are those recognised in the associate's or joint venture's financial statements (including the associate's or joint venture's share of the profit or loss, other comprehensive income and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies (see paragraphs 35 and 36).

28 Gains and losses resulting from 'upstream' and 'downstream' transactions between an entity (including its consolidated subsidiaries) and its associate or joint venture are recognised in the entity's financial statements only to the extent of unrelated investors' interests in the associate or joint venture. 'Upstream' transactions are, for example, sales of assets from an associate or a joint venture to the investor. 'Downstream' transactions are, for example, sales or contributions of assets from the investor to its associate or its joint venture. The investor's share in the associate's or joint venture's gains or losses resulting from these transactions is eliminated.

29 When downstream transactions provide evidence of a reduction in the net realisable value of the assets to be sold or contributed, or of an impairment loss of those assets, those losses shall be recognised in full by the investor. When upstream transactions provide evidence of a reduction in the net realisable value of the assets to be purchased or of an impairment loss of those assets, the investor shall recognise its share in those losses.

30 The contribution of a non-monetary asset to an associate or a joint venture in exchange for an equity interest in the associate or joint venture shall be accounted for in accordance with paragraph 28, except when the contribution lacks commercial substance, as that term is described in Ind AS 16 *Property, Plant and Equipment*. If such a contribution lacks commercial substance, the gain or loss is regarded as unrealised and is not recognised unless paragraph

31 also applies. Such unrealised gains and losses shall be eliminated against the investment accounted for using the equity method and shall not be presented as deferred gains or losses in the entity's consolidated balance sheet or in the entity's balance sheet in which investments are accounted for using the equity method.

31 If, in addition to receiving an equity interest in an associate or a joint venture, an entity receives monetary or non-monetary assets, the entity recognises in full in profit or loss the portion of the gain or loss on the non-monetary contribution relating to the monetary or non-monetary assets received.

32 An investment is accounted for using the equity method from the date on which it becomes an associate or a joint venture. On acquisition of the investment, any difference between the cost of the investment and the entity's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as follows:

- (a) Goodwill relating to an associate or a joint venture is included in the carrying amount of the investment. Amortisation of that goodwill is not permitted.
- (b) Any excess of the entity's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is recognised directly in equity as capital reserve in the period in which the investment is acquired.

Appropriate adjustments to the entity's share of the associate's or joint venture's profit or loss after acquisition are made in order to account, for example, for depreciation of the depreciable assets based on their fair values at the acquisition date. Similarly, appropriate adjustments to the entity's share of the associate's or joint venture's profit or loss after acquisition are made for impairment losses such as for goodwill or property, plant and equipment.

33 The most recent available financial statements of the associate or joint venture are used by the entity in applying the equity method. When the end of the reporting period of the entity is different from that of the associate or joint venture, the associate or joint venture prepares, for the use of the entity, financial statements as of the same date as the financial statements of the entity unless it is impracticable to do so.

34 When, in accordance with paragraph 33, the financial statements of an associate or a joint venture used in applying the equity method are prepared as of a date different from that used by the entity, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the entity's financial statements. In any case, the difference between the end of the reporting period of the associate or joint venture and that of the entity shall be no more than three months unless, in case of an associate, it is impracticable to do so. The length of the reporting periods and any difference between the ends of the reporting periods shall be the same from period to period.

35 The entity's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances unless, in case of an associate, it is impracticable to do so.

36 If an associate or a joint venture uses accounting policies other than those of the entity for like transactions and events in similar circumstances, adjustments shall be made to make the associate's or joint venture's accounting policies conform to those of the entity when the associate's or joint venture's financial statements are used by the entity in applying the equity method.

37 If an associate or a joint venture has outstanding cumulative preference shares that are held by parties other than the entity and are classified as equity, the entity computes its share of profit or loss after adjusting for the dividends on such shares, whether or not the dividends have been declared.

38 If an entity's share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the entity discontinues recognising its share of further losses. The interest in an associate or a joint venture is the carrying amount of the investment in the associate or joint venture determined using the equity method together with any long-term interests that, in substance, form part of the entity's net investment in the associate or joint venture. 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 or joint venture. 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 using the equity method in excess of the entity's investment in ordinary shares are applied to the other components of the entity's interest in an associate or a joint venture in the reverse order of their seniority (i.e. priority in liquidation).

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

Impairment losses

40 After application of the equity method, including recognising the associate's or joint venture's losses in accordance with paragraph 38, the entity applies Ind AS 39 *Financial Instruments: Recognition and Measurement* to determine whether it is necessary to recognise any additional impairment loss with respect to its net investment in the associate or joint venture.

41 The entity also applies Ind AS 39 to determine whether any additional impairment loss is recognised with respect to its interest in the associate or joint venture that does not constitute part of the net investment and the amount of that impairment loss.

42 Because goodwill that forms part of the carrying amount of an investment in an associate or a joint venture is not separately recognised, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in Ind AS 36 *Impairment of Assets*. Instead, the entire carrying amount of the investment is tested for impairment in accordance with Ind AS 36 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 Ind AS 39 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 or joint venture. Accordingly, any reversal of that impairment loss is recognised in accordance with Ind AS 36 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 or joint venture, including the cash flows from the operations of the associate or joint venture and the proceeds from 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.

Using appropriate assumptions, both methods give the same result.

43 The recoverable amount of an investment in an associate or a joint venture shall be assessed for each associate or joint venture, unless the associate or joint venture does not generate cash inflows from continuing use that are largely independent of those from other assets of the entity.

Separate financial statements

44 An investment in an associate or a joint venture shall be accounted for in the entity's separate financial statements in accordance with paragraph 10 of Ind AS 27 (as amended).

Effective Date and Transition

45-46 (Refer to Appendix1)

Withdrawal of Ind AS 28

47 This Standard supersedes Ind AS 28, *Investments in Associates*.

Appendix A

Note: This appendix is provided to bring out the major differences between the Exposure Draft of Ind AS 28 (as amended), Investments in Associates and Joint Ventures and Ind AS 28, Investments in Associates with a view to facilitate commentators in sending their comments on the Exposure Draft of Ind AS 28 (as amended) Investments in Associates and Joint Ventures.

Major differences between Exposure Draft of Ind AS 28 (as amended) *Investments in Associates and Joint Ventures* and Ind AS 28, *Investments in Associates*

1. In Ind AS 28 (as amended), the accounting for joint ventures is incorporated as equity method is applicable to both joint ventures and associates.
2. The scope exception for venture capital organisations which was there in Ind AS 28 has been eliminated in Ind AS 28 (as amended) and has been characterised as a measurement exemption from the requirement to measure investments in associates and joint ventures in using the equity method.
3. Ind AS 28 (as amended) now permits an entity that has an investment in an associate, a portion of which is held indirectly through venture capital organisations, to elect to measure that portion of the investment in the associate at fair value through profit or loss in accordance with Ind AS 39 regardless of whether these entities have significant influence over that portion of the investment.
4. Ind AS 28 (as amended) requires a portion of an investment in an associate or a joint venture to be classified as held for sale if the disposal of that portion of the interest would fulfil the criteria to be classified as held for sale in accordance with Ind AS 105. Ind AS 28 does not specifically deal with this aspect.
5. The 'Consensus' of Appendix A, *Jointly Controlled Entities- Non Monetary Contributions by Ventures* of Ind AS 31, *Interests in Joint Ventures*, has been incorporated into Ind AS 28. As a result, gains and losses resulting from a contribution of a non-monetary asset to an associate or a joint venture in exchange for an equity interest in an associate or a joint venture are recognised only to the extent of unrelated investors' interests in the associate or joint venture, except when the contribution lacks commercial substance as that term is described in Ind AS 16 *Property, Plant and Equipment*.
6. The disclosure requirements for entities with joint control of, or significant influence over, an investee are not included in Ind AS 28 (as amended) as these are specified in Ind AS 112 *Disclosure of Interests in Other Entities*. In Ind AS 28, *Investments in Associates*, the disclosures requirements for associates are given.

Appendix B

Note: This Appendix is provided to bring out the major differences between the Exposure Draft of Indian Accounting Standard (Ind AS) 28 (as amended) Investments in Associates and Joint Ventures, and the existing AS 23, 'Accounting for Investments in Associates in Consolidated Financial Statements', with a view to facilitate commentators in sending their comments on the Exposure Draft of Ind AS 28

Major Differences between the Exposure Draft of Ind AS (as amended) Investments in Associates and Joint Ventures and the existing AS 23, (issued 2001), Accounting for Investments in Associates in Consolidated Financial Statements

1. 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 Ind AS 28 (as amended), 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'. Ind AS 28 (as amended) defines joint control also.
2. 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 Ind AS 28 (as amended), 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.
3. Existing AS 23 requires application of the equity method only when the entity has subsidiaries and prepares Consolidated Financial Statements. Ind AS 28 (as amended) requires application of equity method in financial statements other than separate financial statements even if the investor does not have any subsidiary.
4. 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 Ind AS 28.

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 Ind AS 28 (as amended) as such situations are covered by Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations*.

5. Ind AS 28 (as amended) now permits an entity that has an investment in an associate, a

portion of which is held indirectly through venture capital organisations, to elect to measure that portion of the investment in the associate at fair value through profit or loss in accordance with Ind AS 39 regardless of whether these entities have significant influence over that portion of the investment.

6. Ind AS 28 (as amended) requires a portion of an investment in an associate or a joint venture to be classified as held for sale if the disposal of that portion of the interest would fulfil the criteria to be classified as held for sale in accordance with Ind AS 105. AS 23 does not specifically deals with this aspect.
7. As per the existing AS 23, in separate financial statements, 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 Ind AS 27, the same is to be accounted for at cost or in accordance with Ind AS 39 *Financial Instruments: Recognition and Measurement*.
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 Ind AS 28 (as amended) , length of difference in the reporting dates of the associate or joint venture should not be more than three months unless, in case of an associate, it is impracticable to do so.
9. Both the existing AS 23 and Ind AS 28 (as amended) 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. Ind AS 28 (as amended) provides that the entity's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances unless, in case of an associate, it is impracticable to do so.
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 Ind AS 28 (as amended), carrying amount of investment in the associate or joint venture determined using the equity method together with any long term interests that, in substance form part of the entity's net investment in the associate or joint venture shall be considered for recognising entity's share of losses in the associate or joint venture.

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. Ind AS 28 (as amended) requires that after application of equity method, including recognising the associate's or joint venture's losses, the requirements of Ind AS 39 shall be applied to determine whether it is necessary to recognise any additional impairment loss.

Appendix 1

Comparison with IAS 28 (as amended in 2011), *Investments in Associates and Joint Ventures*

Note: This appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 28 (as amended), Investments in Associates and Joint Ventures and the corresponding International Accounting Standard (IAS) 28, Investments in Associates and Joint Ventures (as amended in May 2011) issued by the International Accounting Standards Board:

1. Paragraphs 16 has been modified and paragraph 17 has been deleted as the applicability or exemptions to the Indian Accounting Standards is governed by the Companies Act and the Rules made thereunder. However, paragraph numbers have been retained in Ind AS 28 (as amended) to maintain consistency with IAS 28 (as amended in 2011).
2. References to mutual funds, unit trusts and similar entities including investment linked insurance funds, has been deleted in paragraphs 18 and 19 of Ind AS 28 (as amended) as the Companies Act, 1956, is not applicable to mutual funds, unit trusts and similar entities including investment linked insurance funds and, thus, this standard would not be applicable to such entities.
3. Where the financial statements of an associate used in applying equity method are prepared as of a date different from that of the investor, IAS 28 (as amended in 2011) requires that this difference should not be more than three months. However, paragraph 25 of Ind AS 28 (as amended) provides that this difference should not be more than three months, unless, in case of an associate, it is impracticable. Similarly, paragraph 35 of Ind AS 28 (as amended) requires use of uniform accounting policies, unless, in case of an associate, it is impracticable, which IAS 28 (as amended in 2011) does not provide. These changes have been made because the investor does not have 'control' over the associate, it may not be able to influence the associate to prepare additional financial statements or to follow the accounting policies that are followed by the investor.

4. Paragraph 32 (b) has been modified on the lines of Ind AS 103, *Business Combinations* to transfer excess of the investor's share of the net fair value of the investee's identifiable assets and liabilities over the cost of investment in capital reserve whereas in IAS 28 (as amended in 2011), it is recognised in profit or loss.
5. Different terminology is used, as used in existing laws e.g., the term 'balance sheet' is used instead of 'Statement of financial position'.
6. Paragraphs 45 and 46 appear as deleted as they are not relevant in the Indian context. However, the paragraph numbers are retained for consistency with IAS 28 (as amended 2011).
