

IND AS 28 – Investments in Associates and Joint Ventures

CA. Mayank Lakhani

B.Com. ACA. Dip.IFRS (U.K)

Mobile no : +91 9953058997

Email Id : camayanklakhani@gmail.com



Disclaimer

“The material/presentation is prepared for use in educational programmes conducted by the Institute of Chartered Accountants of India. The views expressed herein do not necessarily represent the views of the Council of the Institute or any of its Committees.”

OBJECTIVE

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

DEFINITIONS

1. An Associate

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

2. Significant influence

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.

DEFINITIONS

3. The Equity Method

The Equity Method is a method of accounting whereby the investments 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.

Significant Influence - Indicators

When an entity exercises significant influence over an investee, one or more of the following indicators is usually present:

- § Representation on the board of directors or equivalent governing body or the investee
- § Participation in policy-making processes, including participation in decisions about dividends or other distributions;
- § Material transactions between the entity and the investee;
- § Interchange of managerial personnel; or
- § Provision of essential technical information.

Potential Voting Rights

The existence and effect of potential voting rights that are currently exercisable or convertible, are considered when assessing whether an entity has significant influence,

The entity examines all facts and circumstances (including terms of exercise etc.) that affect potential voting rights except the intention of management and financial ability to exercise or convert.

However, the investor's share taken up in applying equity method does not reflect any possible exercise or conversion of potential voting rights.

Measurement

Measurement rule

- Associates and joint ventures are accounted for using the equity method.

Exemptions from the equity method

- Entity is a parent and the scope exemption in paragraph 4(a) of IFRS 10
- A venture capital organisation or similar entity can elect to measure its investments in associates or joint ventures at fair value through profit or loss in accordance with IFRS 9.

Equity method

- Recognise the investment initially at cost, then adjusting for the post-acquisition change in the investor's share of net assets of the associate or joint venture.
- Presentation:
 - a one-line entry in the statement of comprehensive income 'investor's share of the associate or joint venture's profit or loss' and a separate line item for other comprehensive income.
 - a one-line item in the statement of financial position—Investment in associate or joint venture.

Equity method continued

- Equity accounting for an associate's losses continues until the investment is reduced to zero.
- Additional losses may be recognised as a liability if an entity has a legal or constructive obligation
- Recognition of future share of profits only after share of profits equals losses

Equity method continued

- The 'investment' includes not only shares in the associate, but also some non-equity interests such as some long-term receivables.
- Uniform accounting policies should be used, unless impracticable.
- If the associate or joint venture's year end differs from the investor's adjustments must be made for significant transactions that occurred between the dates
 - Difference in year-ends may not exceed three months

Equity method continued

- Goodwill forms part of the investment in associate or joint venture
 - Therefore, the goodwill is tested for impairment as part of a single asset—the investment
- Application of the equity method is discontinued when:
 - The investment becomes a subsidiary
 - Significant influence or joint control of the investment is lost
 - IFRS 9 application to interest retained (if any)
 - Profit or loss on disposal

Unrealised intra-group profits

<i>Downstream transactions</i>	<i>Upstream transactions</i>
If the sale of goods/assets at profit is made by the investor to the associate, it is known as a downstream transaction.	If the sale of goods/assets at profit is made by the associate to the investor , it is known as a upstream transaction.
The entry is as under: Dr. Retained earnings of investor (Investor's own profit) Cr. Investment in associate (CBS) (Being the elimination of group's share in unrealised intra-group profits)	The entry is as under: Dr. Retained earnings of Investor (Associate profit) Cr. Inventory (CBS) (Being elimination of URP on inventory owing to upstream transactions)
Rationale: In this case, URP is included in the associate's inventory, but associate's inventory is not shown in the investor's financial statements as it does not consolidate the accounts of the associate. Hence URP needs to be eliminated from the investment and not from inventory	Rationale: In this case, URP is included in the investor's inventory which is included in consolidated financial statements. Hence URP needs to be eliminated from the inventory and corresponding effect will always go to profit of associate company to be included.



CASE STUDY

CASE STUDY-1

- Veerabhadra Ltd. (Associate) has revalued its Fixed Assets from Rs.100 lakhs to Rs.360 lakhs.
- This Revaluation Amount has not been included in its statement of profit or loss. Kapali Ltd (Investor) holds 25% stake in the Associate.
- Explain how this should be reflected in Kapali Ltd's Consolidated Financial Statements

CASE STUDY-2

- Brainsoft Ltd. Acquires 40% of AD Softex Ltd's shares on April 1, 2013, the price paid was Rs.1,40,000. AD Softex Ltd's shareholder equity shares are as follows:

• Equity Shares	50,000
• Share premium	1,50,000
• Retained earning	50,000
- Further, AD Softex reported a net income of Rs.30,000 and paid dividend of Rs. 10,000. Calculate the amount at which the investments in AD Softex should be shown in the consolidated Balance Sheet of Brainsoft Ltd as on 31-03-2014

CASE STUDY-3

- ABC Ltd purchased 30% equity shares of NDA Ltd. On 01-04-2013 at a cost of Rs.5 lakhs. On that date, NDA Ltd equity fund was as under:

- | | Amt (Rs.) |
|------------------------|------------------|
| • Equity share capital | 10 lakhs |
| • Reserves & Surplus | 3 lakhs |
- During the years 2013-2014 and 2014-15 NDA Ltd incurred a loss of Rs. 10 lakhs and Rs.15 lakhs respectively. How the investments in associates will be shown in consolidated financial statements of ABC Ltd?