IAS 28 — Investments in Associates and Joint Ventures (2011)

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Overview

IAS 28 *Investments in Associates and Joint Ventures* (as amended in 2011) outlines how to apply, with certain limited exceptions, the equity method to investments in associates and joint ventures. The standard also defines an associate by reference to the concept of "significant influence", which requires power to participate in financial and operating policy decisions of an investee (but not joint control or control of those polices).

IAS 28 was reissued in May 2011 and applies to annual periods beginning on or after 1 January 2013.

History of IAS 28 (as amended in 2011)

Date	Development	Comments
July 1986	Exposure Draft E28 *Accounting for Investments in Associates and Joint Ventures*	
April 1989	IAS 28 *Accounting for Investments in Associates* issued	Effective 1 January 1990
1994	IAS 28 was reformatted	
December 1998	Amended by IAS 39 *Financial Instruments: Recognition and Measurement*	Effective 1 January 2001

18 December 2003	IAS 28 *Investments in Associates* issued	Effective for annual periods beginning on or after 1 January 2005
10 January 2008	Amended by IFRS 3 *Business Combinations* (loss of significant influence)	Effective for annual periods beginning on or after 1 July 2009
22 May 2008	Amended by *Improvements to IFRSs* (impairment testing)	Effective for annual periods beginning on or after 1 January 2009
12 May 2011	IAS 28 *Investments in Associates and Joint Ventures* (2011) issued (supersedes IAS 28 (2003))	Effective for annual periods beginning on or after 1 January 2013
11 September 2014	Amended by *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)*	Effective on a prospective basis to transactions occurring in annual periods beginning on or after 1 January 2016
18 December 2014	Amended by *Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)* (project history)	Effective for annual periods beginning on or after 1 January 2016

Related Interpretations

- None

Amendments under consideration by the IASB

- IAS 28 — Elimination of gains arising from 'downstream' transactions
- IFRS 13 — Unit of account
- Research project — Equity method of accounting
- Research project — Common control transactions

Summary of IAS 28 (as amended in 2011)

> **The summary below applies to IAS 28 *Investments in Associates and Joint Ventures*, issued in May 2011 and applying to annual reporting periods beginning on or after 1 January 2013. For earlier reporting periods, refer to our summary of IAS 28 *Investments in Associates*.**

Objective of IAS 28

The objective of IAS 28 (as amended in 2011) 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. [IAS 28(2011).1]

Scope of IAS 28

IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture). [IAS 28(2011).2]

Key definitions

[IAS 28.3]

Associate	An entity over which the investor has significant influence
Significant influence	The power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies
Joint arrangement	An arrangement of which two or more parties have joint control
Joint control	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
Joint venture	A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement
Joint venturer	A party to a joint venture that has joint control of that joint venture
Equity method	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

Significant influence

Where an entity holds 20% or more of the voting power (directly or through subsidiaries) on an investee, it will be presumed the investor has significant influence unless it can be clearly demonstrated that this is not the case. If the holding is less than 20%, the

entity will be presumed not to 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. [IAS 28(2011).5]

The existence of significant influence by an entity is usually evidenced in one or more of the following ways: [IAS 28(2011).6]

- representation on the board of directors or equivalent governing body of the investee;
- participation in the policy-making process, 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

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. In assessing whether potential voting rights contribute to significant influence, the entity examines all facts and circumstances that affect potential rights [IAS 28(2011).7, IAS 28(2011).8]

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. [IAS 28(2011).9]

The equity method of accounting

Basic principle. 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. [IAS 28(2011).10]

Distributions and other adjustments to carrying amount. 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 (e.g. to account for changes arising from revaluations of property, plant and equipment and foreign currency translations.) [IAS 28(2011).10]

Potential voting rights. An entity's interest in an associate or a joint venture is determined solely on the basis of existing ownership interests and, generally, does not reflect the possible exercise or conversion of potential voting rights and other derivative instruments. [IAS 28(2011).12]

Interaction with IFRS 9. IFRS 9 *Financial Instruments* does not apply to interests

in associates and joint ventures that are accounted for using the equity method. Instruments containing potential voting rights in an associate or a joint venture are accounted for in accordance with IFRS 9, unless they currently give access to the returns associated with an ownership interest in an associate or a joint venture. [IAS 28(2011).14]

Classification as non-current asset. An investment in an associate or a joint venture is generally classified as non-current asset, unless it is classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. [IAS 28(2011).15]

Application of the equity method of accounting

Basic principle. In its consolidated financial statements, an investor uses the equity method of accounting for investments in associates and joint ventures. [IAS 28(2011).16] Many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in IFRS 10. 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. [IAS 28.(2011).26]

Exemptions from applying the equity method. An entity is exempt from applying the equity method if the investment meets one of the following conditions:

- The entity is a parent that is exempt from preparing consolidated financial statements under IFRS 10 *Consolidated Financial Statements*or or if all of the following four conditions are met (in which case the entity need not apply the equity method): [IAS 28(2011).17]
  - the entity 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
  - the investor or joint venturer's debt or equity instruments are not traded in a public market
  - the entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market, and
  - the ultimate or any intermediate parent of the parent produces financial statements available for public use that comply with IFRSs, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10.*

    * Fair value measurement clause added by *Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)* amendments, effective 1 January 2016.
- 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 organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds,

the entity may elect to measure investments in those associates and joint ventures at fair value through profit or loss in accordance with IFRS 9. [IAS 28(2011).18] When an entity has an investment in an associate, a portion of which is held indirectly through a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that portion of the investment in the associate at fair value through profit or loss in accordance with IFRS 9 regardless of whether the venture capital organisation, or the mutual fund, unit trust and similar entities including investment-linked insurance funds, 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, or a mutual fund, unit trust and similar entities including investment-linked insurance funds. [IAS 28(2011).19]

Classification as held for sale. When the investment, or portion of an investment, meets the criteria to be classified as held for sale, the portion so classified is accounted for in accordance with IFRS 5. Any remaining portion is accounted for using the equity method until the time of disposal, at which time the retained investment is accounted under IFRS 9, unless the retained interest continues to be an associate or joint venture. [IAS 28(2011).20]

Discontinuing the equity method. Use of the equity method should cease from the date that significant influence or joint control ceases: [IAS 28(2011).22]

- If the investment becomes a subsidiary, the entity accounts for its investment in accordance with IFRS 3 *Business Combinations* and IFRS 10
- If the retained interest is a financial asset, it is measured at fair value and subsequently accounted for under IFRS 9
- Any amounts recognised in other comprehensive income in relation to the investment in the associate or joint venture are accounted for on the same basis as if the investee had directly disposed of the related assets or liabilities (which may require reclassification to profit or loss)
- If an investment in an associate becomes an investment in a joint venture (or vice versa), the entity continues to apply the equity method and does not remeasure the retained interest. [IAS 28(2011).24]

Changes in ownership interests. If an entity's interest in an associate or joint venture is reduced, but the equity method is continued to be applied, the entity reclassifies to profit or loss the proportion of the gain or loss previously recognised in other comprehensive income relative to that reduction in ownership interest. [IAS 28(2011).25]

Equity method procedures.

- *Transactions with associates or joint ventures.* Profits and losses resulting from upstream (associate to investor, or joint venture to joint venturer) and downstream (investor to associate, or joint venturer to joint venture) transactions are eliminated to the extent of the investor's interest in the

associate or joint venture. However, unrealised losses are not eliminated to the extent that the transaction provides evidence of a reduction in the net realisable value or in the recoverable amount of the assets transferred. Contributions of non-monetary assets to an associate or joint venture in exchange for an equity interest in the associate or joint venture are also accounted for in accordance with these requirements. [IAS 28(2011).28-30]*

- *Initial accounting.* An investment is accounted for using the equity method from the date on which it becomes an associate or a joint venture. On acquisition, 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 in case of goodwill is included in the carrying amount of the investment (amortisation not permitted) and 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 included as income in the determination of the entity's share of the associate or joint venture’s profit or loss in the period in which the investment is acquired. Adjustments to the entity's share of the associate's or joint venture's profit or loss after acquisition are made, for example, for depreciation of the depreciable assets based on their fair values at the acquisition date or for impairment losses such as for goodwill or property, plant and equipment. [IAS 28(2011).32]
- *Date of financial statements.* In applying the equity method, the investor or joint venturer should use the financial statements of the associate or joint venture as of the same date as the financial statements of the investor or joint venturer unless it is impracticable to do so. If it is impracticable, the most recent available financial statements of the associate or joint venture should be used, with adjustments made for the effects of any significant transactions or events occurring between the accounting period ends. However, the difference between the reporting date of the associate and that of the investor cannot be longer than three months. [IAS 28(2011).33, IAS 28(2011).34]
- *Accounting policies.* If the associate or joint venture uses accounting policies that differ from those of the investor, the associate or joint venture's financial statements are adjusted to reflect the investor's accounting policies for the purpose of applying the equity method. [IAS 28(2011).35]
- *Application of the equity method by a non-investment entity investor to an investment entity investee.* When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries. [IAS 28(2011).36A]**
- *Losses in excess of investment.* If an investor's or joint venturer's share of losses of an associate or joint venture equals or exceeds its interest in the associate or joint venture, the investor or joint venturer discontinues recognising its share of further losses. The interest in an associate or joint venture is the carrying amount of the investment in the associate or joint venture under the equity method together with any long-term interests that, in substance, form part of the investor or joint venturer's net investment in the associate or joint venture. After the investor or

joint venturer's interest is reduced to zero, a liability is recognised only to the extent that the investor or joint venturer has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate or joint venture subsequently reports profits, the investor or joint venturer resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised. [IAS 28(2011).38, IAS 28(2011).39]

*The *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* amendments, effective 1 January 2016, added a requirement that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognised in full in the investor's financial statements.

**Added by the *Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)* amendments, effective 1 January 2016.

Impairment. After application of the equity method an entity applies IAS 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. If impairment is indicated, the amount is calculated by reference to IAS 36 *Impairment of Assets*. The entire carrying amount of the investment is tested for impairment as a single asset, that is, goodwill is not tested separately. The recoverable amount of an investment in an associate is assessed for each individual associate or joint venture, unless the associate or joint venture does not generate cash flows independently. [IAS 28(2011).40, IAS 28(2011).42, IAS 28(2011).43]

Separate financial statements

An investment in an associate or a joint venture shall be accounted for in the entity's separate financial statements in accordance with IAS 27 *Separate Financial Statements* (as amended in 2011).

Disclosure

There are no disclosures specified in IAS 28. Instead, IFRS 12 *Disclosure of Interests in Other Entities* outlines the disclosures required for entities with joint control of, or significant influence over, an investee.

Applicability and early adoption

IAS 28 (2011) is applicable to annual reporting periods beginning on or after 1 January 2013. [IAS 28(2011).45]

An entity may apply IAS 28 (2011) to an earlier accounting period, but if doing so it must disclose the fact that is has early adopted the standard and also apply: [IAS 28(2011).45]

- IFRS 10 *Consolidated Financial Statements*
- IFRS 11 *Joint Arrangements*
- IFRS 12 *Disclosure of Interests in Other Entities*
- IAS 27 *Separate Financial Statements* (2011).

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