

International Accounting Standard 28

Investments in Associates

This version includes amendments resulting from IFRSs issued up to 31 December 2008.

IAS 28 *Accounting for Investments in Associates* was issued by the International Accounting Standards Committee in April 1989. It replaced those parts of IAS 3 *Consolidated Financial Statements* (issued in June 1976) that had not been replaced by IAS 27. IAS 28 was reformatted in 1994, and amended in 1998, 1999 and 2000.

The Standing Interpretations Committee developed three Interpretations relating to IAS 28:

- SIC-3 *Elimination of Unrealised Profits and Losses on Transactions with Associates* (issued December 1997)
- SIC-20 *Equity Accounting Method—Recognition of Losses* (issued July 2000)
- SIC-33 *Consolidation and Equity Method—Potential Voting Rights and Allocation of Ownership Interests* (issued December 2001).

In April 2001 the International Accounting Standards Board (IASB) resolved that all Standards and Interpretations issued under previous Constitutions continued to be applicable unless and until they were amended or withdrawn.

In December 2003 the IASB issued a revised IAS 28 with a new title—*Investments in Associates*. The revised standard also replaced SIC-3, SIC-20 and SIC-33.

Since then, IAS 28 and its accompanying documents have been amended by the following IFRSs:

- IFRS 3 *Business Combinations* (issued March 2004)
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (issued March 2004)
- IAS 1 *Presentation of Financial Statements* (as revised in September 2007)*
- IFRS 3 *Business Combinations* (as revised in January 2008)†
- IAS 27 *Consolidated and Separate Financial Statements* (as amended in January 2008)†
- *Improvements to IFRSs* (issued May 2008).*

The following Interpretation refers to IAS 28:

- IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* (issued December 2004).

* effective date 1 January 2009

† effective date 1 July 2009

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International Accounting Standard 28 *Investments in Associates* (IAS 28) is set out in paragraphs 1–43 and the Appendix. All the paragraphs have equal authority but retain the IASC format of the Standard when it was adopted by the IASB. IAS 28 should be read in the context of the Basis for Conclusions, the *Preface to International Financial Reporting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

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Introduction

IN1 International Accounting Standard 28 *Investments in Associates* replaces IAS 28 *Accounting for Investments in Associates* (revised in 2000) and should be applied for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. The Standard also replaces the following Interpretations:

- SIC-3 *Elimination of Unrealised Profits and Losses on Transactions with Associates*
- SIC-20 *Equity Accounting Method—Recognition of Losses*
- SIC-33 *Consolidation and Equity Method—Potential Voting Rights and Allocation of Ownership Interests*.

Reasons for revising IAS 28

- IN2 The International Accounting Standards Board developed this revised IAS 28 as part of its project on Improvements to International Accounting Standards. The project was undertaken in the light of queries and criticisms raised in relation to the Standards by securities regulators, professional accountants and other interested parties. The objectives of the project were to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements.
- IN3 For IAS 28 the Board's main objective was to reduce alternatives in the application of the equity method and in accounting for investments in associates in separate financial statements. The Board did not reconsider the fundamental approach when accounting for investments in associates using the equity method contained in IAS 28.

The main changes

- IN4 The main changes from the previous version of IAS 28 are described below.

Scope

- IN5 The Standard does not apply to investments that would otherwise be associates or interests of venturers in jointly controlled entities held by venture capital organisations, mutual funds, unit trusts and similar entities when those investments are classified as held for trading and accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. Those investments are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they occur.
- IN6 Furthermore, the Standard provides exemptions from application of the equity method similar to those provided for certain parents not to prepare consolidated financial statements. These exemptions include when the investor is also a parent exempt in accordance with IAS 27 *Consolidated and Separate Financial Statements* from preparing consolidated financial statements (paragraph 13(b)), and when the investor, though not such a parent, can satisfy the same type of conditions that exempt such parents (paragraph 13(c)).

Significant influence

Potential voting rights

- IN7 An entity is required to consider the existence and effect of potential voting rights currently exercisable or convertible when assessing whether it has the power to participate in the financial and operating policy decisions of the investee. This requirement was previously included in SIC-33, which has been superseded.

Equity method

- IN8 The Standard clarifies that investments in associates over which the investor has significant influence must be accounted for using the equity method whether or not the investor also has investments in subsidiaries and prepares consolidated financial statements. However, the investor does not apply the equity method when presenting separate financial statements prepared in accordance with IAS 27.

Exemption from applying the equity method

- IN9 The Standard does not require the equity method to be applied when an associate is acquired and held with a view to its disposal within twelve months of acquisition. There must be evidence that the investment is acquired with the intention to dispose of it and that management is actively seeking a buyer. The words 'in the near future' were replaced with the words 'within twelve months'. When such an associate is not disposed of within twelve months it must be accounted for using the equity method as from the date of acquisition, except in narrowly specified circumstances.*
- IN10 The Standard does not permit an investor that continues to have significant influence over an associate not to apply the equity method when the associate is operating under severe long-term restrictions that significantly impair its ability to transfer funds to the investor. Significant influence must be lost before the equity method ceases to be applicable.

Elimination of unrealised profits and losses on transactions with associates

- IN11 Profits and losses resulting from 'upstream' and 'downstream' transactions between an investor and an associate must be eliminated to the extent of the investor's interest in the associate. The consensus in SIC-3 has been incorporated into the Standard.

Non-coterminous year-ends

- IN12 When financial statements of an associate used in applying the equity method are prepared as at the end of the reporting period that is different from that of the investor, the difference must be no greater than three months.

* In March 2004, the Board issued IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. IFRS 5 removes this scope exclusion and now eliminates the exemption from applying the equity method when significant influence over an associate is intended to be temporary. See IFRS 5 Basis for Conclusions for further discussion.

Uniform accounting policies

- IN13 The Standard requires an investor to make appropriate adjustments to the associate's financial statements to conform them to the investor's accounting policies for reporting like transactions and other events in similar circumstances. The previous version of IAS 28 provided an exception to this requirement when it was 'not practicable to use uniform accounting policies'.

Recognition of losses

- IN14 An investor must consider the carrying amount of its investment in the equity of the associate and its other long-term interests in the associate when recognising its share of losses of the associate. SIC-20 limited the recognition of the investor's share of losses to the carrying amount of its investment in the equity of the associate. Therefore, that Interpretation has been superseded.

Separate financial statements

- IN15 The requirements for the preparation of an investor's separate financial statements are established by reference to IAS 27.

International Accounting Standard 28

Investments in Associates

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 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 IAS 39 *Financial Instruments: Recognition and Measurement*. Such investments shall be measured at fair value in accordance with IAS 39, 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).