IAS - 28

Investments in Associates

By: http://www.WorldGAAPInfo.com

International Accounting Standard No. 28 (IAS 28)

Investments in associates

Scope

1. **This Standard applies to accounting for investments in associates. However, shall not apply to investments in associates held by:**

   (a) venture capital organizations, or

   (b) collective investment institutions, investment funds or other similar entities, including funds related to insurance investments

   Since its initial recognition are designated as at fair value through profit or loss or are classified as held to negotiate the accounts according to IAS 39 Financial Instruments: Recognition and Measurement. These investments are valued at fair value in accordance with IAS 39, and changes therein are recognized in income for the year in which such changes take place. An entity that maintains an investment of this nature reveals the information requested in paragraph 37 (f).

   Definitions

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

   An associate is an entity over which the investor has significant influence, and is not a dependent or as a participation in a joint venture. The association can take many forms, including unincorporated entities defined, such as associative forms for business purposes.

   Consolidated financial statements are the financial statements of a group, presented as if it were a single economic entity.

   Control is the power to direct the financial and operating policies of an entity, in order to obtain benefits from its activities

   The method of participation is a method of accounting whereby the investment is initially recorded at cost and is subsequently adjusted according to the changes experienced after the purchase, the portion of the net assets of the entity that corresponds to the inverter. The result of the exercise of the investor will collect the portion that corresponds to the results of the investee.

   Joint control is the contractual agreement to share control over an economic activity, and only exists when the strategic decisions, both financial and operating on the activity require the unanimous consent of all parties sharing control (the participants).

The financial statements are separate financial statements of an investor, whether a dominant investor in an associate or a partner in a jointly controlled entity, in which investments are accounted for from the amounts invested directly and not depending on the results and net assets held by the entity in which it has invested.

Significant influence is the power to intervene in policy decisions and financial exploitation of the investee, but not having full control or joint control over it.

A dependent (or subsidiary) is controlled by another entity (known as the dominant or parent). The subsidiary may take various forms, including unincorporated entities defined, such as associative forms for business purposes.

3. The method of participation does not apply in the separate financial statements or in the financial statements of an entity that has no subsidiaries, associates or interests in joint ventures.

4. The separate financial statements are those that are in addition to the consolidated financial statements, the financial statements in which investments are accounted for using the method of participation or financial statements on which the shares in joint ventures are consolidated proportionally. Separate financial statements may or may not be attached or accompany the financial statements referred to above.

5. Institutions which are exempt from the consolidation in accordance with paragraph 10 of IAS 27 Consolidated and separate financial statements may produce separate financial statements as their only financial statements. The same provision applies to entities exempted from applying the proportional consolidation, according to paragraph 2 of IAS 31 Interests in joint ventures and entities exempted from applying the method, according to the provisions of paragraph (c) of paragraph 13 of this Standard.

Significant influence

6. It is assumed that the investor exerts significant influence if it holds, directly or indirectly (e.g. through subsidiaries), 20 percent or more of the voting power at stake; unless it can be clearly demonstrated that such influence does not exist. Conversely, it is presumed that the investor does not exercise significant influence if it holds, directly or indirectly (e.g. through subsidiaries), less than 20 percent of the voting power at stake, unless it can be clearly demonstrated that there is such influence. The existence of another investor, who owns a majority or substantial, not necessarily prevent it exerts significant influence.

7. Usually, the existence of significant influence by the investor is evidenced by one or more of the following ways:

(a) representation on the board of directors or equivalent body in the direction of a participating entity;

(b) participation in policy-setting processes, including decisions on dividends and other distributions;

(c) relative importance of transactions between the investor and the investee;

(d) exchange of personnel management, or

(e) provision of essential technical information.

8. An entity may own warrants for subscription of shares (warrants), stock options, instruments or liabilities which are convertible into capital stock or other similar instruments which, if exercised or converted, they can give the entity additional voting power, or reduce the voting rights of third parties on the financial and operating policies of another entity (potential voting rights). When assessing whether a given entity has significant influence on the other hand, will take into account the existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities. Not considered as potential voting rights exercisable or convertible at that time which, for example, cannot be exercised or converted until a future date, or until an event has occurred future.

9. In assessing whether potential voting rights contribute to the existence of significant influence, the entity shall consider all facts and circumstances (including the conditions of exercise of such rights and any other potential contractual arrangements, considered alone or in combination) that affect the, unless the intent of management with respect to the exercise or conversion and the financial capacity to carry it out.

10. An entity loses significant influence over the investee it lacks the power to intervene in policy decisions and financial exploitation of it. The loss of influence can go or not accompanied by a change in absolute or relative levels of ownership. Could take place, for example, when the associate would be subject to scrutiny by the government, courts, an administrator or regulator. It could also occur as a result of a contractual agreement.

Method of participation

11. According to the method, the investment in an associate is initially recorded at cost and will increase or decrease the amount of books to recognize the portion that corresponds to the investor in the outcome of the exercise obtained by the participating institution after the date of acquisition. The investor will recognize in its income for the year, the portion that corresponds to the results of the investee. Distributions received from the investee reduce the carrying amount of investment. Might be necessary making adjustments to reflect the alterations suffered by the proportional share stake in the

entity as a result of changes in other outcome of the investee entity. These changes include those arising from the revaluation of property, plant and equipment and of exchange differences to convert the financial statements of business abroad. The portion corresponding to the investor in these changes will be recognized in another overall result of this (see IAS 1 Presentation of Financial Statements (revised 2007).

12. When potential voting rights exist, the proportions in the outcome of the exercise and changes in equity of the investee are determined from the participation in the property that is in that moment, it will not take into account the possible exercise or conversion of potential voting rights.

Method of participation

13. Investment in an associate is accounted for using the equity method, except when:

(a) the investment is classified as held for sale, in accordance with IFRS 5 Non-current assets held for sale and discontinued operations;

(b) applies the exception in paragraph 10 of IAS 27, which allows a dominant, which also has investments in an associate, not to produce consolidated financial statements, or

(c) should apply all of the following conditions:

(i) the investor is in turn dependent on a full or part dominated by another entity, and its other owners, including those not entitled to vote in other circumstances, have been informed and have expressed no objection to the investor do not apply the method of participation;

(ii) instruments or passive investor capital is not traded on a public market (either a stock exchange or a foreign national or non-market organizations including local or regional markets);

(iii) the parent does not register, or is in the process of recording their statements in a securities commission or other regulatory organization, to deliver some kind of instruments in a public market, and

(iv) the last dominant or one of the dominant intermediate prepared consolidated financial statements available to the public, that comply with International Financial Reporting Standards.

14. The investment described in paragraph (a) of paragraph 13 shall be accounted for in accordance with IFRS 5.

15. Where an investment in an associate previously classified as held for sale, no longer meets the criteria for classification as such, is counted using the method of participation with effect from the date of classification as held for sale. In this case, we restate financial statements for all periods subsequent to its classification as held for sale.

16. [Deleted]

17. Recognition of income distributions received may not be for the investor, a proper assessment of the profit earned on the investment in the associate, as such distributions received may bear little relation to performance. Since the investor exercises significant influence over the associate, is entitled to participate in their performances and thus to receive the proceeds of investment. The investor shall account for the right to participate in extending the performance range of its financial statements to include its share of the loss or gain of the partnership. Accordingly, the application of the method provides more informative data on net assets and the outcome of the exercise of the investor.

18. The investor will cease to apply the method of participation from the date it ceased its influence on the partner, and then counted from the investment in accordance with IAS 39, provided that the partner has not become a dependent or in a joint venture as defined in IAS 31.

19. The amount of investment on the date that is no longer a partner is considered as its cost, for the initial assessment of the financial asset in accordance with IAS 39.

20. Many of the procedures necessary to implement the method, are similar to the consolidation procedures described in IAS 27. Furthermore, the concepts involved in the procedures used in accounting for the acquisition of a subsidiary shall also apply in the case of acquisition of investment in an associate.

21. The participation of a group as a partner is the sum of the equity held in that associate by the parent and its subsidiaries. Will be ignored for this purpose, the shares of other associates or joint ventures of the group. When a partner has, in turn, subsidiaries, associates and joint ventures, gains or losses and net assets, to be taken to implement the method, will be recognized in the financial statements of the associate (where include the portion corresponding to the associated gains or losses and net assets of associates and joint ventures), after making the necessary adjustments to ensure that the accounting policies used are standard (see paragraphs 26 and 27).

22. Gains and losses from transactions "upstream" and "down" between the investor (with its consolidated subsidiaries) and the associated, are recognized in the financial statements of the latter only in so far as to shares of other investors in the associated non-investor.

Transactions are "upstream", for example, sales of assets associated with the investor. Transactions are "down", for example, sales of assets linked to the investor. Remove the portion of gains and losses from such transactions, which corresponds to the investor.

23. Investment in associate is accounted for using the equity method, as soon as it becomes associated. At the time of acquisition, the difference between the cost of investment and the portion corresponding to the investor in the net fair value of assets, liabilities and contingent liabilities identifiable associate is accounted for under IFRS 3 Business Combinations. Therefore:

    (a) The goodwill associated with the partner will be included in the amount of investment. However, the amortization of such goodwill is not permitted and therefore not included in the determination of the investor's participation in the outcomes of the partnership.

    (b) The excess, on the cost of investment, involving the participation of the investor in the net fair value of assets, liabilities and identifiable contingent liabilities of the associate, was excluded from the value of the investment, and include as income in determining the investor's participation in the results of the association, within the period in which they had acquired.

    Appropriate adjustments were made in the investor's participation in post-acquisition results of associate accounted for, for example, depreciation of the depreciable assets based on their fair values at the acquisition date. In like manner, appropriate adjustments shall be made in the investor's participation in post-acquisition results of associate, to take into account the losses in the value recognized by it in such items as goodwill or tangible.

24. In applying the equity method, are used most recently available financial statements of the associate. When the year-end reporting of the investor and the associate are different, the partners developed for use by investors, financial statements relating to the dates of the latter, unless it is impracticable to do so.

25. Where, in accordance with the provisions of paragraph 24, the financial statements of an associate who used to apply the method of participation are prepared to a date different from that corresponding to the investor. In any case, the difference between year-end reporting to the associate and the investor may be greater than three months. The duration of the exercises will be reported on and the differences between the ends thereof shall be the same one to another.

26. **The investor's financial statements shall be prepared by applying uniform accounting policies for transactions and other events, being similar, have occurred in similar circumstances.**

27. If a partner applies different policies than those adopted by the investor for like transactions and other events that have occurred in similar circumstances, appropriate adjustments shall be made in the financial statements of the associate that the investor used to apply the method of participation, to ensure that the policies of the associated match those used by the investor.

28. Where the associate has outstanding preferred stock, cumulative rights, which have been classified as equity, the investor completed their participation in the profits or losses after adjusting for dividends such actions, regardless of whether the dividends in question have been agreed or not.

29. If the portion that corresponds to investor losses of the associate equals or exceeds the investment you have in it, will no longer recognize the party that you may have in additional losses for this purpose, investment in the associate is equal to the amount calculated using the book method, which is added the amount of any other item which, by its substance, form part of the investor's net investment in the associate. For example, an item for which there is no provision for cancellation or will happen in the foreseeable future is, in essence, an extension of the entity's investment in this partnership. Such items might include the preference shares and loans or accounts receivable in the long term, but would not trade debts receivable or payable, or items to collect long-term for which there are adequate safeguards, such as guaranteed loans. The losses are recognized, according to the method, beyond the investment that the investor has made in ordinary shares, will be applied to deduce the other components of investment in the associate, in reverse order of their priority (i.e., its priority in liquidation).

30. Once the investor has reduced the value of its investment to zero, take into account the additional losses through the recognition of a liability only to the extent it has incurred legal or constructive obligations or made payments on behalf of associate. If the associate subsequently obtains earnings, investors continue to recognize their part in them when their participation in those profits equal to what he had in unrecognized losses.

Losses in value

31. Once you have applied the method, and have recognized the loss of the associate as set out in paragraph 29, the investor applies the requirements of IAS 39 to determine whether it is necessary to recognize impairment losses respect to the additional net investment you have in the partnership.

32. The investor also applies the requirements of IAS 39 to determine whether to recognize additional impairment loss with respect to other items on the partner that are not part of the net investment and the amount of such impairment loss.

33. The goodwill that is part of the carrying amount of an investment in an associate shall not be recognized separately from it, nor verify its deterioration separately, in accordance with the requirements for verification of the impairment of goodwill IAS 36 Impairment of Assets. In its place, check the deterioration in value for the entire amount of the investment in accordance with IAS 36 as a single asset by comparing its recoverable amount (the higher of value in use and fair value less costs to sell) with its book value, provided that the implementation of the requirements of IAS 39 indicates that the investment may have deteriorated. An impairment loss in value recognized in these circumstances is not assigned to any asset, including goodwill that is part of the amount of investment in the associate. Consequently, reversals of the impairment loss in value are recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment will increase in future. To determine the usefulness of investment, an entity estimates:

(a) the portion that corresponds to the present value of estimated future cash flows expected to be generated by the associate, including the estimated future cash flows by operating activities of the commission and the amount resulting from the disposition or final disposal by other means of investment or

(b) the present value of estimated future cash flows expected to be received as dividends from investments and amounts of the final disposition or disposal otherwise of it.

Using the appropriate assumptions, both methods give the same result.

34. The recoverable amount of the investment in an associate is assessed for each partner in particular, except that it does not generate cash entries that are largely independent of those from other assets of the entity.

Separate financial statements

35. In the separate financial statements of the investor, the investment in an associate is accounted for in accordance with paragraphs 37 to 42 of IAS 27.

36. This Standard establishes which entities should prepare separate financial statements available for public use.

Information Disclosure

37. will disclose the following information in the financial statements:

(a) the fair value of investments in associates for which there are public trading prices;

(b) summary financial information of associates, which include the aggregate value of assets, liabilities, income and ordinary income for the year;

(c) the reasons why it has avoided the assumption that there is no significant influence if the investor holds, directly or indirectly through other subsidiaries, less than 20 percent of voting power in the actual or potential investee, when the investor has concluded that such influence;

(d) the reasons why it has avoided the assumption that there is significant influence if the investor holds, directly or indirectly through other subsidiaries, 20 per cent or more of voting power in the actual or potential investee, when the investor has come to the conclusion that no such influence;

(e) the year-end reporting on the financial statements of an associate if they have been used to implement the method, and refer to a date or year that is different from the investor, and the reasons for using that date or that exercise different

(f) the nature and extent of any significant restrictions (e.g., arising from loan agreements or regulatory requirements) on the ability of associates to transfer funds to investors as dividends in cash, or repayment of loans or advances;

(g) the portion of the associated losses are not recognized, distinguishing those which are accumulated for the year and, if the investor has failed to recognize its share in the losses of the associate;

(h) the fact that a partner has not been accounted for using the equity method, according to the provisions of paragraph 13 e

(i) summary financial information, either individually or in groups, the partners have not been accounted for using the equity method, which include amounts of total assets, total liabilities, revenues and income for the year.

38. Investments in associates which are accounted for using the equity method are classified among non-current assets. Be disclosed separately that portion of the profit or loss of such partners as appropriate to the investor and the amount of the related investments. It will also be subject to separate disclosure by the share investor in any of such entities associated interrupted.

39. The relevant portion of the investor changes recognized in other comprehensive result for the associated, will be recognized by another investor overall.

40. The investor shall disclose, in accordance with the provisions of IAS 37 Provisions, contingent liabilities and contingent assets:

(a) its share of the contingent liabilities of an associate incurred in conjunction with other investors and

(b) those contingent liabilities that have arisen because the investor is vicariously liable in relation to part or all of the liabilities of an associate.
Effective date and transition

41. **An entity shall apply this Standard in the years beginning on or after January 1, 2005. It is advisable to apply early. If an entity applies this Standard for a financial year beginning before January 1, 2005, disclose that fact.**

41A. IAS 1 (revised 2007) amended the terminology used in IFRS. In addition it amended paragraphs 11 and 39. An entity shall apply those amendments for annual periods beginning on or after January 1, 2009. If an entity applies IAS 1 (revised 2007) to prior periods, the changes also apply to these exercises.

41C. Paragraph 1 and 33 were amended by the document Improvement Standards and Interpretations issued in May 2008. An entity shall apply those amendments in the years beginning on or after January 1, 2009. Early application is permitted. If an entity applies the changes to a previous one, disclose this fact and applied for that earlier period the modifications to paragraph 3 of IFRS 7 Financial Instruments: Disclosure Information, paragraph 1 of IAS 31 and paragraph 4 of IAS 32 Financial Instruments: Presentation issued in May 2008. Allowing an entity applies the amendments prospectively.

Repeal of other pronouncements

42. This Standard repeals IAS 28 Accounting for investments in associates (revised 2000).

43. This Standard repeals the following interpretations:

(a) SIC 3 Elimination of unrealized gains and losses on transactions with associates.

(b) SIC 20-Method of the recognition of losses and

(c) SIC 33 Consolidation and method of participation, voting rights and potential distribution of ownership shares.