Associates and joint ventures acquired in stages

When an associate or a joint venture is acquired in stages, goodwill is calculated initially at the time at which the investment becomes an associate or a joint venture (i.e. when significant influence or joint control is achieved). The goodwill is calculated as the difference between the cost of the investment and the investor’s share of the net fair value of the investee’s identifiable assets and liabilities.

In accordance with IAS 28(2011):10, the investment in the associate or joint venture is initially recognised at cost. When the investor has previously held an investment in the associate or joint venture (generally accounted for under IAS 39 or, when adopted, IFRS 9), the deemed cost of the associate or joint venture is the fair value of the original investment at the date that significant influence or joint control is achieved plus the consideration paid for the additional stake. However, IAS 28 is not clear as to whether any gains or losses arising on the original investment since its acquisition should be reflected in profit or loss at this point.

Because IAS 28 does not mandate a particular accounting treatment in this regard, an entity may either:

- by analogy to IFRS 3, treat the transaction as a disposal of the original investment for fair value and an acquisition of an associate or a joint venture, with the result that a gain or loss on the disposal will typically be reflected in profit or loss; or
- recognise a revaluation gain on the original tranche in an appropriate component of equity in order to get to the appropriate starting point for the equity method. Under this approach, if the original investment has been classified previously as an available-for-sale financial asset under IAS 39, the revaluation gain or loss recognised in other comprehensive income should not be reclassified from equity to profit or loss. If instead the original investment was measured at cost in accordance with IAS 39(4)(a), a revaluation gain is required to recognise the investment at fair value and to calculate goodwill. No gain or loss should be recognised in profit or loss under this approach, because there has been no realisation event (e.g. a disposal).

The choice between these two approaches is an accounting policy choice, which should be applied consistently for all acquisitions of associates achieved in stages.

Subsequent accounting for goodwill

The portion of the difference between the cost of an investment and the amount of the underlying equity in net assets of an associate that is recognised as goodwill in accordance with IAS 28 should not be amortised. Because goodwill that forms part of the carrying amount of an investment accounted for using the equity method is not separately recognised, neither is it tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 Impairment of Assets. Instead, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 as a single asset, by comparing its recoverable amount with its carrying amount whenever, based on the requirements in IAS 39 Financial Instruments: Recognition and Measurement, there is an indication of impairment.

An impairment loss recognised in the circumstances above is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Accordingly, any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

There are different views regarding the nature of the equity method. In an entity view, the equity method is critical in its consideration of an appropriate accounting policy under IAS 28 for recognising property, plant and equipment in respect of its associates and joint ventures.

In accordance with IAS 28(2011):40–42, interests in associates (or joint ventures) and the investor’s share of the profit or loss of the associate (or joint venture) are presented as a one-line item in the statement of financial position and the statement of comprehensive income respectively and the investor is required to monitor its investment for impairment as a whole. Furthermore, in accordance with IAS 28(2011):38–39, the investor ceases to recognise its share of the investee’s losses once it has reduced its investment to zero and only recognises a liability for subsequent losses to the extent that it has incurred legal or constructive obligations or made payments on behalf of the associate (or joint venture). Therefore, the equity method has some of the features commonly associated with a valuation methodology (sometimes referred to as a ‘closed box’ view).

However, in its guidance on the equity method, IAS 28(2011):32 states that, “a separate 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 plant and equipment.”

Therefore, the equity method has some of the features commonly associated with consolidation.

Reporting periods of associates and joint ventures

When applying the equity method, the investor uses the most recent financial statements of the associate or joint venture. When the end of the reporting period of the associate or joint venture is different from that of the investor, the associate or joint venture will prepare additional financial statements, for the investor’s use, corresponding to the investor’s reporting period, unless it is impracticable to do so, in which case financial statements prepared for a different reporting period may be used. The difference between the end of the reporting period of the associate or joint venture and that of the investor, however, can never be more than three months.

The length of the reporting periods used and any difference between the ends of the reporting periods should be consistent from period to period.

When financial statements of an associate or a joint venture with a different reporting period are used, adjustments are made for the effects of any significant events or transactions that occur between the end of the associate’s reporting period and the end of the investor’s reporting period.

Uniform accounting policies

The investor’s financial statements should be prepared using uniform accounting policies for like transactions and events in similar circumstances. When an associate uses different accounting policies from those of the investor for like transactions and events, the financial statements of the associate or joint venture used for the purposes of the equity method are adjusted to conform the accounting policies of the associate or joint venture to those of the investor.

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- Basic book keeping
- Treasury management
- Fixed asset accounting
- Filling temporary gaps for staff on leave, vacation, maternity

Management Reporting Services
- Budget preparation
- Cost benefit analysis
- Cash flow planning
- Management reporting
- Cost price analysis

IFRS/IPSAS
- IFRS conversion and restatement
- IPSAS implementation project
- IFRS help desk
- Financial instrument advisory

Audit Readiness Assessment and Assistance
- Audit readiness assessment and assistance

Actuarial Services
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- Liability adequacy test
- Actuarial valuation
- Review and assistance on IAS 19 disclosures

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