Accounting for investment in associates (Part 7)

If an entity chooses to report a line for operating profit, it will need to consider whether the share of profit or loss of associates and joint ventures accounted for using the equity method should be presented within or outside operating profit.

The disclosure requirements in this section will normally apply to consolidated financial statements prepared in accordance with IAS 27(2008). They will also apply, however, when the investor does not prepare consolidated financial statements, because it does not have subsidiaries, but accounts for associates in its financial statements using the equity method.

The following disclosures are required:
(a) the fair value of investments in associates for which there are published price quotations (if an entity has adopted IFRS 13, the reference is to ‘quoted market prices’);
(b) summarised financial information of associates, including the aggregated amounts of assets, liabilities, revenues and profit or loss;
(c) the reasons why the presumption that an investor does not have significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, less than 20 per cent of the voting or potential voting power of the investee but concludes that it has significant influence;
(d) the reasons why the presumption that an investor has significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, 20% or more of the voting or potential voting power of the investee but concludes that it does not have significant influence;
(e) the end of the reporting period of the financial statements of an associate, when such financial statements are used in applying the equity method and are as of a date or for a period that is different from that of the investor, and the reason for using a different date or different period;
(f) the nature and extent of any significant restrictions in, resulting from borrowing arrangements or regulatory requirements on, the ability of associates to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances;
(g) the unrecognised share of losses of an associate, both for the period and cumulatively, if an investor has discontinued recognition of its share of losses of an associate;
(h) summarised financial information of associates, either individually or in groups, that are not accounted for using the equity method, including the amounts of total assets, total liabilities, revenues and profit or loss.

It is not clear whether the figures to be disclosed in accordance with IAS 28(2003):37 (b) (i) should be:
• the full figures, or the investor’s share of those figures, and
• as reported by the investee, or adjusted for any fair value adjustments arising on acquisition and to comply with the investor’s accounting policies.

Accordingly, an entity should devise and apply consistently an accounting policy for each of the disclosures required by IAS 28(2003):37 (b) (i) and (j) and explain the basis of preparation. Where the figures are judged to be material, consideration might also be given as to how associates are aggregated. For example, it may be more helpful to users for the summarised financial information of associates with net liabilities to be aggregated separately from those with net assets.

Separate disclosure is required of:
• the investor’s share of the profit or loss of associates accounted for under the equity method;
• the carrying amount of investments in associates accounted for under the equity method; and
• the investor’s share of any discontinued operations of associates accounted for under the equity method.

The investor’s share of changes recognised in other comprehensive income by the associate should be recognised by the investor in other comprehensive income. [IAS 28(2003):39]

In accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, the investor should disclose: [IAS 28(2003):40]
• its share of the contingent liabilities of an associate incurred jointly with other investors; and
• those contingent liabilities that arise because the investor is severally liable for all or part of the liabilities of the associate.

Any impairment loss should not be offset against the share of profit or loss from associates and joint ventures because this would conflict with the requirement to show that share of profit or loss as a separate line item.

Presentation
IAS 1 Presentation of Financial Statements requires that:
• investments accounted for under the equity method should be presented as a separate line item in the statement of financial position, and
• the share of profit or loss of associates and joint ventures accounted for using the equity method should be presented as a separate line item in the profit or loss section or the statement of profit or loss.

If an entity chooses to report a line for operating profit, it will need to consider whether the share of profit or loss of associates and joint ventures accounted for using the equity method should be presented within or outside operating profit. Having made that decision, it would seem appropriate for any impairment loss relating to such an associate or joint venture to be presented consistently with the decision either within or outside operating profit. Any impairment loss should not be offset against the share of profit or loss from associates and joint ventures because this would conflict with the requirement to show that share of profit or loss as a separate line item.

Therefore, some entities may choose to show the impairment loss separately from, but adjacent to, the share of profit or loss of the associate or joint venture.

Disclosure
Financial statements in which associates are accounted for using the equity method
The disclosure requirements in this section will normally apply to consolidated financial statements prepared in accordance with IAS 27(2008). They will also apply, however, when the investor does not prepare consolidated financial statements, because it does not have subsidiaries, but accounts for associates in its financial statements using the equity method.
Accounting & Financial Advisory (AFA)
New Service Lines

Accounting Services
- Accounts preparation and reporting
- Bookkeeping
- Accounts reconciliation and reconstruction
- Consolidation of group accounts
- Internal control over financial reporting

Outsourcing/Co-sourcing Services
- Basic bookkeeping
- 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
- Review of actuarial assumptions
- Liability adequacy test
- Actuarial valuation
- Review and assistance on IAS 19 disclosures

Treasury Services
- Accounts receivable management services
- Treasury process improvement
- Treasury accounting/audit
- Development of treasury policies

Fixed Asset Management Services
- Physical verification
- Data integrity improvement
- Fixed asset management transformation

Deloitte Academy
Graduate Academy
Associates Academy
Professional Academy

General Process Improvement
- Financial reporting policies and procedures
- Financial reporting process enhancement
- Financial system description and controls

Finance Transformation
- Exit readiness
- Finance diagnostic
- Business process mapping
- MI transformation
- Fast track assessment
- Faster financial close

Contact
Uwadike Odware
Lead Partner - AFA
Tel: +234 805 601 8887
Email: uwadike@deloitte.com

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