

2012

Technical Summary

IAS 28 Investments in Associates and Joint Ventures

as issued at 1 January 2012. Includes IFRSs with an effective date after 1 January 2012 but not the IFRSs they will replace.

This extract has been prepared by IFRS Foundation staff and has not been approved by the IASB. For the requirements reference must be made to International Financial Reporting Standards.

The objective of the Standard 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.

The Standard shall be applied by all entities that are investors with joint control of, or significant influence over, an investee.

An associate is an entity over which the investor has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

IFRS 11 *Joint Arrangements* establishes principles for the financial reporting of parties to joint arrangements. A joint arrangement is an arrangement of which two or more parties have joint control. An entity shall determine the type of joint arrangement in which it is involved. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint venturer shall recognise its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with IAS 28 *Investments in Associates and Joint Ventures* unless the entity is exempted from applying the equity method as specified in the standard.

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. 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. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognised in the investor's other comprehensive income (see IAS 1 *Presentation of Financial Statements*).

The entity's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances. If an associate or a joint venture uses accounting policies other than those of the entity for like transactions and events in similar circumstances, adjustments shall be made to make the associate's or joint venture's accounting policies conform to those of the entity when the associate's or joint venture's financial statements are used by the entity in applying the equity method.

After application of the equity method, including recognising the associate's and joint venture's losses, the entity applies the requirements of 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.

The Standard provides exemptions from applying the equity method similar to those provided in IFRS 10 *Consolidated Financial Statements* for parents not to prepare consolidated financial statements. The Standard also provides exemptions from applying the equity method when the investment in the associate or joint venture is held by, or is held indirectly through, venture capital organisations, or mutual funds, unit trusts and similar entities including investment-linked insurance funds. Those investments in associates and joint ventures may be measured at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments*.

The disclosure requirements for entities with joint control of, or significant influence over, an investee are specified in IFRS 12 *Disclosure of Interest in Other Entities*.