

**ACCOUNTING STANDARD**

**AASB 128**

July 2004

# **Investments in Associates**



**Australian Government**

---

**Australian Accounting  
Standards Board**

## Obtaining a Copy of this Accounting Standard

This Standard is available on the AASB website: [www.aasb.com.au](http://www.aasb.com.au).  
Alternatively, printed copies of this Standard are available for purchase by contacting:

The Customer Service Officer  
Australian Accounting Standards Board  
Level 3  
530 Collins Street  
Melbourne Victoria 3000  
AUSTRALIA

**Postal address:**  
PO Box 204 Collins St West  
Melbourne Victoria 8007  
AUSTRALIA

Phone: (03) 9617 7637  
Fax: (03) 9617 7608  
E-mail: [publications@aaasb.com.au](mailto:publications@aaasb.com.au)  
Website: [www.aasb.com.au](http://www.aasb.com.au)

Other enquiries:

Phone: (03) 9617 7600  
Fax: (03) 9617 7608  
E-mail: [standard@aaasb.com.au](mailto:standard@aaasb.com.au)

### COPYRIGHT

© 2004 Commonwealth of Australia

This AASB Standard contains International Accounting Standards Committee Foundation copyright material. Reproduction within Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source. Requests and enquiries concerning reproduction and rights for commercial purposes within Australia should be addressed to The Administration Director, Australian Accounting Standards Board, PO Box 204, Collins Street West, Melbourne, Victoria 8007.

All existing rights in this material are reserved outside Australia. Reproduction outside Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use only. Further information and requests for authorisation to reproduce for commercial purposes outside Australia should be addressed to the International Accounting Standards Committee Foundation at [www.iasb.org](http://www.iasb.org).

ISSN 1036-4803

## CONTENTS

PREFACE

COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS

### ACCOUNTING STANDARD

#### AASB 128 *INVESTMENTS IN ASSOCIATES*

	<i>Paragraphs</i>
Application	Aus1.1 – Aus1.8
Scope	1
Definitions	2
Significant Influence	6 – 10
Equity Method	11 – 12
Application of the Equity Method	13 – 30
Impairment Losses	31 – 34
Separate Financial Statements	35 – 36
Disclosure	37 – 40

### IMPLEMENTATION GUIDANCE

(see AASB 127 *Consolidated and Separate Financial Statements*)

### BASIS FOR CONCLUSIONS ON IAS 28

(available to AASB online subscribers or through the IASB)

Australian Accounting Standard AASB 128 *Investments in Associates* is set out in paragraphs Aus1.1 – 40. All the paragraphs have equal authority. Terms defined in this Standard are in *italics* the first time they appear in the Standard. AASB 128 is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation and Application of Standards*, which identifies the Australian Accounting Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

## **PREFACE**

### **Reasons for Issuing AASB 128**

The Australian Accounting Standards Board (AASB) is implementing the Financial Reporting Council's policy of adopting the Standards of the International Accounting Standards Board (IASB) for application to reporting periods beginning on or after 1 January 2005. The AASB has decided it will continue to issue sector-neutral Standards, that is, Standards applicable to both for-profit and not-for-profit entities, including public sector entities. Except for Standards that are specific to the not-for-profit or public sectors or that are of a purely domestic nature, the AASB is using the IASB Standards as the "foundation" Standards to which it adds material detailing the scope and applicability of a Standard in the Australian environment. Additions are made, where necessary, to broaden the content to cover sectors not addressed by an IASB Standard and domestic, regulatory or other issues.

The IASB defines International Financial Reporting Standards (IFRSs) as comprising:

- (a) International Financial Reporting Standards;
- (b) International Accounting Standards; and
- (c) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

The Australian equivalents to IFRSs are:

- (a) Accounting Standards issued by the AASB that are equivalent to Standards issued by the IASB, being AASBs 1 – 99 corresponding to the IFRS series and AASBs 101 – 199 corresponding to the IAS series; and
- (b) Interpretations issued by the AASB corresponding to the Interpretations adopted by the IASB, as listed in AASB 1048 *Interpretation and Application of Standards*.

## **Main Features of this Standard**

### **Application Date**

This Standard is applicable to annual reporting periods beginning on or after 1 January 2005. To promote comparability among the financial reports of Australian entities, early adoption of this Standard is not permitted.

### **First-time Application and Comparatives**

Application of this Standard will begin in the first annual reporting period beginning on or after 1 January 2005 in the context of adopting all Australian equivalents to IFRSs. The requirements of AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, the Australian equivalent of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, must be observed. AASB 1 requires prior period information, presented as comparative information, to be restated as if the requirements of this Standard had always applied. This differs from previous Australian requirements where changes in accounting policies did not require the restatement of the income statement and balance sheet of the preceding period.

However, AASB 1 provides an exemption for past acquisitions of investments in associates. That is, an entity may elect not to apply AASB 128 *Investments in Associates* retrospectively to past acquisitions of investments in associates. However, if an entity restates any past acquisition to comply with AASB 128, it restates all later acquisitions of investments in associates. For example, if an entity elects to restate a past acquisition that occurred on 30 June 2002, it restates all acquisitions of investments in associates that occurred between 30 June 2002 and the date of transition to Australian equivalents to IFRSs.

If an entity does not apply AASB 128 retrospectively to a past acquisition of an investment in an associate, such an election gives rise to a number of transitional provisions for that acquisition.

By virtue of the exemption within AASB 1, an entity may undertake one of the following courses of action:

- (a) apply AASB 128 retrospectively to all past acquisitions of investments in associates;
- (b) utilise the exemption under AASB 1 for all past acquisitions of investments in associates; or

- (c) apply AASB 128 retrospectively to some past acquisitions of investments in associates and utilise the exemption under AASB 1 for other past acquisitions of investments in associates.

Each of these is considered below.

**(a) Apply AASB 128 retrospectively to all past acquisitions of investments in associates**

A retrospective application of AASB 128 would require an investor to determine the carrying amount of its investment in an associate as at the date of transition to Australian equivalents to IFRSs as if Australian equivalents to IFRSs had always applied (that is, from the date of acquiring the investment in the associate<sup>1</sup> to the date of transition to Australian equivalents to IFRSs).

The application of the equity method under AASB 128 is broadly consistent with AASB 1016.

In order to calculate the equity-accounted carrying amount of its investment in an associate (under both AASB 128 and AASB 1016), an investor prepares a 'notional' balance sheet at the date of acquiring the investment in the associate so as to record the identifiable assets, liabilities and contingent liabilities of the associate at their fair values as at that date. This enables the investor to determine any 'notional goodwill' (AASB 128 refers to this as "the difference between the cost of the investment and the investor's share of the fair values of the net identifiable assets"). When calculating the investor's share of 'post-acquisition' profits or losses of the associate, adjustments should be made to reflect depreciation of the associate's depreciable assets based on their fair values at the date on which the investment in the associate was acquired.

However, in applying AASB 1016, the post-acquisition profits or losses of the associate, as well as other changes in the associate's equity subsequent to acquisition, have necessarily been determined in accordance with previous Australian requirements. A retrospective application of AASB 128 would require the post-acquisition profits or losses of the associate,<sup>2</sup> as well as other changes in the associate's equity subsequent to acquisition, to be determined in accordance with Australian equivalents to IFRSs. The determination of post-acquisition profits or losses of the associate (as well as other equity changes) under Australian equivalents to IFRSs will potentially differ from those determined under previous Australian requirements (and therefore potentially give rise to a different equity-accounted balance).

---

<sup>1</sup> Alternatively, the date of obtaining significant influence.

<sup>2</sup> That is, profits or losses of the associate subsequent to the date of acquiring the investment in the associate (or the date of obtaining significant influence).

In order to determine the equity-accounted balance in accordance with Australian equivalents to IFRSs, an entity could use the following approach:

- (i) prepare an Australian-equivalents-to-IFRSs 'notional' balance sheet for the associate as at the date of acquiring the investment in the associate<sup>3</sup> (that is, a 'notional' balance sheet determined in accordance with the Australian equivalents to IFRSs that exist at the date of transition to Australian equivalents to IFRSs);<sup>4</sup>
- (ii) prepare an Australian-equivalents-to-IFRSs 'notional' balance sheet for the associate as at the date of transition to Australian equivalents to IFRSs;
- (iii) calculate the investor's share of the post-acquisition change in the Australian-equivalents-to-IFRSs 'notional' retained earnings/reserves of the associate;
- (iv) add/subtract post-acquisition changes in the Australian-equivalents-to-IFRSs 'notional' retained earnings/reserves of the associate to the initial cost of the investment in the associate; and
- (v) adjust the carrying amount of the investment in associate in the opening Australian-equivalents-to-IFRSs balance sheet *of the investor* as appropriate.

Retrospectively applying AASB 128 means that any notional goodwill amortisation reflected in the carrying amount of the investment under previous Australian requirements is effectively reversed.

**(b) Utilise the exemption under AASB 1 for all past acquisitions of investments in associates**

As discussed in section (a) above, in order to calculate the carrying amount of its interest in an associate, an investor prepares a 'notional' balance sheet so as to record the identifiable assets, liabilities and contingent liabilities of the associate at their fair values as at the date of acquisition (as well as any 'notional goodwill').

In applying the exemption within AASB 1, the investor applies the transitional requirements within Appendix B of AASB 1 to the 'notional' balance sheet as at the date of transition to Australian equivalents to IFRSs.

---

<sup>3</sup> Alternatively, the date of obtaining significant influence.

<sup>4</sup> This may require the entity to recreate data that it did not capture at the date of acquiring its investment in an associate (or the date that it obtained significant influence) and to make subjective estimates about conditions that existed at that date.

In order to determine the equity-accounted balance using the exemption in AASB 1, an entity could perform the following:

- (i) prepare an Australian-equivalents-to-IFRSs 'notional' balance sheet for the associate as at the date of transition to Australian equivalents to IFRSs;
- (ii) calculate the investor's share of the change in the retained earnings/reserves of the associate from the 'notional' balance sheet under previous Australian requirements at the date of transition to the Australian-equivalents-to-IFRSs 'notional' balance sheet at the date of transition; and
- (iii) adjust the carrying amount of the investment in associate in the opening Australian-equivalents-to-IFRSs balance sheet *of the investor* as appropriate (for example, the investor's share of the change in retained earnings should be recognised in the investor's opening retained earnings, and its share of the change in reserves should be recognised in the investor's reserves).

Note, unlike a retrospective application of AASB 128, any notional goodwill amortisation reflected in the carrying amount of the investment under previous Australian requirements is *not* reversed.

- (c) **Apply AASB 128 retrospectively to some past acquisitions of investments in associates and utilise the exemption under AASB 1 for other past acquisitions of investments in associates**

An entity may elect to apply AASB 128 retrospectively to a particular acquisition of an investment in an associate. Where such an election is made, the entity is required to restate all later acquisitions of investments in associates.

## **Main Requirements**

The Standard:

- (a) defines associates and prescribes the circumstances in which investors must use the equity method of accounting for investments in associates;
- (b) prescribes the manner of applying the equity method of accounting under which:

- (i) the carrying amount of the investment is increased or decreased to recognise the investor's share of the post acquisition profits or losses and other changes in net assets of the associate; and
  - (ii) the investor's share of the post-acquisition profits or losses of the associate is included in the consolidated profit and loss statement of the investor; and
- (c) prescribes disclosure requirements in respect of investments in associates, including those for which the equity method of accounting is not required.

## COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS

### AASB 128 and IAS 28

AASB 128 is equivalent to IAS 28 *Investments in Associates* issued by the IASB. Paragraphs that have been added to this Standard (and do not appear in the text of the equivalent IASB Standard) are identified with the prefix “Aus”, followed by the number of the relevant IASB paragraph and decimal numbering.

### Compliance with IAS 28

Entities that comply with AASB 128 will simultaneously be in compliance with IAS 28.

### AASB 128 and IPSAS 7

International Public Sector Accounting Standards (IPSASs) are issued by the Public Sector Committee of the International Federation of Accountants.

IPSAS 7 *Accounting for Investments in Associates* (May 2000) is drawn primarily from the 1998 version of IAS 28. The main differences between IPSAS 7 and AASB 128 are:

- (a) IPSAS 7 applies to all investments in associates where the investor holds an ownership interest in the associate in the form of a shareholding or other formal equity structure. AASB 128 does not contain similar ownership interest requirements. However, it is unlikely that equity accounting could be applied unless the associate has a formal or other reliably measurable equity structure;
- (b) IPSAS 7 requires an associate to be accounted for using the cost method when it operates under severe long-term restrictions that significantly impair its ability to transfer funds or provide other non-financial benefits to, or on behalf of, the investor. In contrast, AASB 128 does not permit an investor that continues to have significant influence over an associate not to apply the equity method;
- (c) IPSAS 7 requires an investment in an associate that is acquired and held exclusively with a view to its disposal in the near future to be

accounted for using the cost method. AASB 128 does not contain a similar exclusion;

- (d) IPSAS 7 requires the most recent available financial statements of the associate to be used by the investor in applying the equity method. When the reporting dates of the investor and the associate are different, the associate often prepares, for the use of the investor, statements as at the same date as the financial statements of the investor. When it is impracticable to do this, financial statements drawn up to a different reporting date may be used. IPSAS 7 does not specify a maximum difference between these reporting dates. In contrast, AASB 128 states that the difference between reporting dates must be no greater than three months;
- (e) if an associate uses accounting policies other than those adopted by the investor for like transactions and events in similar circumstances, IPSAS 7 requires appropriate adjustments to be made to the associate's financial statements when they are used by the investor in applying the equity method, unless it is not practicable to do so. In contrast, AASB 128 does not provide an exemption from applying uniform accounting policies when it is not practicable to do so;
- (f) IPSAS 7 limits the recognition of an investor's share of the associate's losses to the carrying amount of its investment in the equity of the associate. In contrast, AASB 128 requires an investor to 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 the associate's losses; and
- (g) IPSAS 7 allows an investment in an associate that is included in the separate financial statements of an investor that issues consolidated financial statements to be accounted for (a) at cost; (b) in accordance with the equity method; or (c) in the same way as other investments shown in the financial statements of the investor. In contrast, AASB 128 requires an investment in an associate to be accounted for (a) at cost; or (b) in accordance with AASB 139.

---

<sup>1</sup> Note, however, that if an investment in an associate meets the criteria to be classified as held for sale in accordance with AASB 5 *Non-current Assets Held For Sale and Discontinued Operations*, it is accounted for in accordance with that Standard.



## ACCOUNTING STANDARD AASB 128

The Australian Accounting Standards Board makes Accounting Standard AASB 128 *Investments in Associates* under section 334 of the *Corporations Act 2001*.

Dated 15 July 2004

D.G. Boymal  
Chair – AASB

## ACCOUNTING STANDARD AASB 128

### *INVESTMENTS IN ASSOCIATES*

#### Application

- Aus1.1** This Standard applies to:
- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;
  - (b) general purpose financial reports of each other reporting entity; and
  - (c) financial reports that are, or are held out to be, general purpose financial reports.
- Aus1.2** This Standard applies to annual reporting periods beginning on or after 1 January 2005.
- Aus1.3** This Standard shall not be applied to annual reporting periods beginning before 1 January 2005.
- Aus1.4** The requirements specified in this Standard apply to the financial report where information resulting from their application is material in accordance with AASB 1031 *Materiality*.
- Aus1.5** When applicable, this Standard supersedes:
- (a) AASB 1016 *Accounting for Investments in Associates* as notified in the *Commonwealth of Australia Gazette* No S 415, 25 August 1998 as amended by AASB 1016A *Amendments to Accounting Standard AASB 1016* as

notified in the *Commonwealth of Australia Gazette* No S 502, 15 October 1998; and

- (b) **AAS 14 *Accounting for Investments in Associates* as issued in May 1997.**

- Aus1.6 Both AASB 1016 and AAS 14 remain applicable until superseded by this Standard.
- Aus1.7 Notice of this Standard was published in the *Commonwealth of Australia Gazette* No S 294, 22 July 2004.
- Aus1.8 A requirement in an Australian Accounting Standard to restate comparative information does not, of itself, give rise to a requirement to replace the original financial report for the preceding period.**

## 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 AASB 139 *Financial Instruments: Recognition and Measurement*. Such investments shall be measured at fair value in accordance with AASB 139, with changes in fair value recognised in profit or loss in the period of the change.**

## 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 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).

3. [Deleted by the AASB]

4. [Deleted by the AASB]

5. [Deleted by the AASB]

## **Significant Influence**

6. If an investor holds, directly or indirectly (e.g. through subsidiaries), 20% or more of the voting power of the investee, it is presumed that the investor has *significant influence*, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly (e.g. through subsidiaries), less than 20 per

cent of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence.

7. The existence of significant influence by an investor is usually evidenced in one or more of the following ways:
  - (a) representation on the board of directors or equivalent governing body of the investee;
  - (b) participation in policy-making processes, including participation in decisions about dividends or other distributions;
  - (c) material transactions between the investor and the investee;
  - (d) interchange of managerial personnel; or
  - (e) provision of essential technical information.
8. An entity may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar instruments that have the potential, if exercised or converted, to give the entity additional voting power or reduce another party's voting power over the financial and operating policies of another entity (i.e. potential voting rights). The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether an entity has significant influence. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.
9. In assessing whether potential voting rights contribute to significant influence, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual arrangements whether considered individually or in combination) that affect potential rights except the intention of management and the financial ability to exercise or convert.
10. An entity loses significant influence over an investee when it loses the power to participate in the financial and operating policy decisions of that investee. The loss of significant influence can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when an associate becomes subject to the *control*

of a government, court, administrator or regulator. It could also occur as a result of a contractual agreement.

## Equity Method

11. Under the *equity method*, the investment in an associate is initially 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 profit or loss of the investee 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 equity that have not been recognised in the investee's profit or loss. 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 directly in equity of the investor.
12. When potential voting rights exist, the investor's share of profit or loss of the investee and of changes in the investee's equity is determined on the basis of present ownership interests and does not reflect the possible exercise or conversion of potential voting rights.

## Application of the Equity Method

13. **An investment in an associate shall be accounted for using the equity method except when:**
  - (a) **the investment is classified as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*; or**
  - (b) [Deleted by the AASB]
  - (c) **all of the following apply:**
    - (i) **the investor is a wholly-owned *subsidiary*, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the investor not applying the equity method;**
    - (ii) **the investor's debt or equity instruments are not traded in a public market (a domestic or foreign stock**

exchange or an over-the-counter market, including local and regional markets);

- (iii) **the investor did not file, nor is it in the process of filing, its financial reports with a securities commission or other regulatory organisation, for the purpose of issuing any class of instruments in a public market; and**
- (iv) **the ultimate Australian or any intermediate parent of the investor produces consolidated financial statements available for public use that comply with Australian equivalents to IFRSs.**

**14. Investments described in paragraph 13(a) shall be accounted for in accordance with AASB 5.**

**Aus14.1 Entities that are exempted in accordance with paragraph 13(c) of this Standard from applying the equity method shall account for their investments in associates either:**

- (a) **at cost, or**
- (b) **in accordance with AASB 139.**

15. When an investment in an associate previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for using the equity method as from the date of its classification as held for sale. Financial statements for the periods since classification as held for sale shall be amended accordingly.

16. [Deleted by the IASB]

17. The recognition of income on the basis of distributions received may not be an adequate measure of the income earned by an investor on an investment in an associate because the distributions received may bear little relation to the performance of the associate. Because the investor has significant influence over the associate, the investor has an interest in the associate's performance and, as a result, the return on its investment. The investor accounts for this interest by extending the scope of its financial statements to include its share of profits or losses of such an associate. As a result, application of the equity method provides more informative reporting of the net assets and profit or loss of the investor.

18. **An investor shall discontinue the use of the equity method from the date that it ceases to have significant influence over an associate and shall account for the investment in accordance with AASB 139 from that date, provided the associate does not become a subsidiary or a joint venture as defined in AASB 131 *Interests in Joint Ventures*.**
19. **The carrying amount of the investment at the date that it ceases to be an associate shall be regarded as its cost on initial measurement as a financial asset in accordance with AASB 139.**
20. Many of the procedures appropriate for the application of the equity method are similar to the consolidation procedures described in AASB 127 *Consolidated and Separate Financial Statements*. Furthermore, the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate.
21. A group's share in an associate is the aggregate of the holdings in that associate by the parent and its subsidiaries. The holdings of the group's other associates or joint ventures are ignored for this purpose. When an associate has subsidiaries, associates, or joint ventures, the profits or losses and net assets taken into account in applying the equity method are those recognised in the associate's financial statements (including the associate's share of the profits or losses and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies (see paragraphs 26 and 27).
22. Profits and losses resulting from 'upstream' and 'downstream' transactions between an investor (including its consolidated subsidiaries) and an associate are recognised in the investor's financial statements only to the extent of unrelated investors' interests in the associate. 'Upstream' transactions are, for example, sales of assets from an associate to the investor. 'Downstream' transactions are, for example, sales of assets from the investor to an associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated.
23. An investment in an associate is accounted for using the equity method from the date on which it becomes an associate. On acquisition of the investment any difference between the cost of the investment and the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for in accordance with AASB 3 *Business Combinations*. Therefore:

- (a) goodwill relating to an associate is included in the carrying amount of the investment. However, amortisation of that goodwill is not permitted and is therefore not included in the determination of the investor's share of the associate's profits or losses;
- (b) any excess of the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the investor's share of the associate's profit or loss in the period in which the investment is acquired.

Appropriate adjustments to the investor's share of the associate's profits or losses after acquisition are also made to account, for example, for depreciation of the depreciable assets, based on their fair values at the acquisition date. Similarly, appropriate adjustments to the investor's share of the associate's profits or losses after acquisition are made for impairment losses recognised by the associate, such as for goodwill or property, plant and equipment.

- 24. The most recent available financial statements of the associate are used by the investor in applying the equity method. When the reporting dates of the investor and the associate are different, the associate prepares, for the use of the investor, financial statements as of the same date as the financial statements of the investor unless it is impracticable to do so.**
- 25. When, in accordance with paragraph 24, the financial statements of an associate used in applying the equity method are prepared as of a different reporting date from that of the investor, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the investor's financial statements. In any case, the difference between the reporting date of the associate and that of the investor shall be no more than three months. The length of the reporting periods and any difference in the reporting dates shall be the same from period to period.**
- 26. The investor's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances.**
- 27. If an associate uses accounting policies other than those of the investor for like transactions and events in similar circumstances, adjustments shall be made to conform the associate's accounting policies to those

of the investor when the associate's financial statements are used by the investor in applying the equity method.

28. If an associate has outstanding cumulative preference shares that are held by parties other than the investor and classified as equity, the investor computes its share of profits or losses after adjusting for the dividends on such shares, whether or not the dividends have been declared.
29. If an investor's share of losses of an associate equals or exceeds its interest in the associate, the investor discontinues recognising its share of further losses. The interest in an associate is the carrying amount of the investment in the associate under the equity method together with any long-term interests that, in substance, form part of the investor's net investment in the associate. For example, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that associate. Such items may include preference shares and long-term receivables or loans but do not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists, such as secured loans. Losses recognised under the equity method in excess of the investor's investment in ordinary shares are applied to the other components of the investor's interest in an associate in the reverse order of their seniority (i.e. priority in liquidation).
30. After the investor's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

## **Impairment Losses**

31. After application of the equity method, including recognising the associate's losses in accordance with paragraph 29, the investor applies the requirements of AASB 139 to determine whether it is necessary to recognise any additional impairment loss with respect to the investor's net investment in the associate.
32. The investor also applies the requirements of AASB 139 to determine whether any additional impairment loss is recognised with respect to the investor's interest in the associate that does not constitute part of the net investment and the amount of that impairment loss.

33. Because goodwill included in the carrying amount of an investment in an associate is not separately recognised, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in AASB 136 *Impairment of Assets*. Instead, the entire carrying amount of the investment is tested under AASB 136 for impairment, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of the requirements in AASB 139 indicates that the investment may be impaired. In determining the value in use of the investment, an entity estimates:
- (a) its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or
  - (b) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Under appropriate assumptions, both methods give the same result.

34. The recoverable amount of an investment in an associate is assessed for each associate, unless the associate does not generate cash inflows from continuing use that are largely independent of those from other assets of the entity.

## Separate Financial Statements

35. **An investment in an associate shall be accounted for in the investor's *separate financial statements* in accordance with paragraphs 37-39, and 42 of AASB 127.**
36. This Standard does not mandate which parent entities produce separate financial statements available for public use.

## Disclosure

37. **The following disclosures shall be made:**
- (a) **the fair value of investments in associates for which there are published price quotations;**
  - (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% 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 reporting date of the financial statements of an associate, when such financial statements are used in applying the equity method and are as of a reporting date or for a period that is different from that of the investor, and the reason for using a different reporting date or different period;
- (f) the nature and extent of any significant restrictions (e.g. 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) the fact that an associate is not accounted for using the equity method in accordance with paragraph 13; and
- (i) 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.

**Aus37.1** The following disclosure shall be made:

- (a) in respect of each significant associate:
  - (i) its name, principal activities and country of incorporation or residence;
  - (ii) the investor's ownership interest as at the associate's reporting date and, if different, at the investor's reporting date;

- (iii) the proportion of voting power held in the associate where different from the proportion of ownership interest held; and
      - (iv) where an associate holds equity in the investor, the percentage of equity held by the associate.
    - (b) where the equity method is applied to investments in associates, the amount of the investor's share of associates':
      - (i) profit or loss before income tax; and
      - (ii) income tax expense; and
    - (c) where the equity method is applied to investments in associates:
      - (i) the amount of impairment losses recognised in profit or loss during the period and the line item(s) of the income statement in which those impairment losses are included; and
      - (ii) the amount of reversals of impairment losses recognised in profit or loss during the period and the line item(s) of the income statement in which those impairment losses are reversed;
    - (d) the amount of the investor's share of associates':
      - (i) capital commitments contracted for; and
      - (ii) other expenditure commitments contracted for, other than for the supply of inventories.
38. Investments in associates accounted for using the equity method shall be classified as non-current assets. The investor's share of the profit or loss of such associates, and the carrying amount of those investments, shall be separately disclosed. The investor's share of any discontinued operations of such associates shall also be separately disclosed.
39. The investor's share of changes recognised directly in the associate's equity shall be recognised directly in equity by the investor and shall be disclosed in the statement of changes in equity as required by AASB 101 *Presentation of Financial Statements*.

40. **In accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, the investor shall disclose:**
- (a) **its share of the contingent liabilities of an associate incurred jointly with other investors; and**
  - (b) **those contingent liabilities that arise because the investor is severally liable for all or part of the liabilities of the associate.**

### **Effective Date of IAS 28**

41. [Deleted by the AASB]

### **Withdrawal of Other IASB Pronouncements**

42. [Deleted by the AASB]
43. [Deleted by the AASB]