Accounting for Interests in Other Entities
(Workshop 3) 4 August 2014

LAM Chi Yuen Nelson 林智遠
MBA MSc BBA ACA ACS CFA CPA(U.S.) CTA FCCA
FCPA FCPA(Aust.) FHKIoD FTIHK MHKSI MSCA

Accounting for Interests in Other Entities

- IFRS 10 Consolidated Financial Statements
- IFRS 3 Business Combinations
- IFRS 12 Disclosure of Interests in Other Entities
- Consolidation of Foreign Subsidiary (IAS 21)
- IFRS 11 Joint Arrangements
- IAS 28 Investments in Associates and Joint Ventures

Workshop 1
- Consol. and B. Combination

Workshop 2
- Changes in a group
- Disclosure

- More calculations in **Workshop 2** and **3**
- You are welcome to bring your own calculator to practise

Workshop 3
- Other consolidation issues
- Joint arrangements and Associates

Agenda of Workshop 3

Requirements

Practical Examples

Real Cases

IFRS 12 Disclosure of Interests in Other Entities

Consolidation of Foreign Subsidiary (IAS 21)

IFRS 11 Joint Arrangements

IAS 28 Investments in Associates and Joint Ventures

Workshop 3
- Other consolidation issues
- Joint arrangements and Associates

1. Consolidation of Foreign Operation

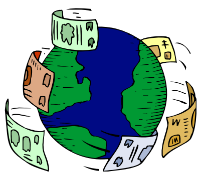
Approach in IAS 21

Determine Functional Currency	1. In preparing financial statements, each entity determines its functional currency.
Translate Foreign Currency Transactions	2. The entity translates foreign currency items or transactions into its functional currency and reports the effects of such translation.
Translate Foreign Operation or Whole Set	3. The results and financial position of any individual entity (say subsidiary, associate or branches) within the reporting entity (say parent) whose functional currency differs from the presentation currency of the reporting entity are translated. 4. If the entity's presentation currency differs from its functional currency, its results and financial position are also translated into the presentation currency.

What is Foreign Currency?

Determine Functional Currency	1. In preparing financial statements, each entity determines its functional currency.

- **Foreign currency** is a currency other than the functional currency of the entity.
- **Functional currency** is the currency of the primary economic environment in which the entity operates.
- **Presentation currency** is the currency in which the financial statements are presented.



Foreign Currency Transactions

Determine Functional Currency

↓

Translate Foreign Currency Transactions

Translate Foreign Operation

Determine Functional Currency

Translate Foreign Currency Transactions

↓

Translate Foreign Operation or Whole Set

Translate Foreign Operation

- An entity may present its financial statements in any currency (or currencies).
- If the presentation currency differs from the entity's functional currency
  - ➢ it translates its results and financial position into the presentation currency.
  - ➢ in the translation, firstly to ascertain whether functional currency of an entity is a currency of a hyperinflationary economy

Functional currency is not a currency of a hyperinflationary economy

Functional currency is a currency of a hyperinflationary economy

Translate Foreign Operation

Functional currency is not a currency of a hyperinflationary economy

The results and financial position of such entity shall be translated into a different presentation currency using the following procedures:

a) assets and liabilities for each statement of financial position presented (i.e. including comparatives)

   ⇒ shall be translated at the closing rate at the date of that statement of financial position;

b) income and expenses for each income statement (i.e. including comparatives)

   ⇒ shall be translated at exchange rates at the dates of the transactions; and

c) all resulting exchange differences

   ⇒ shall be recognised as a separate component of equity.

For practical reasons, a rate that approximates the exchange rates at the dates of the transactions, for example, an average rate for the period, is often used to translate income and expense items.

Translate Foreign Operation

Functional currency is not a currency of a hyperinflationary economy

The exchange differences referred to above result from:

a) translating
   - income and expenses at the exchange rates at the dates of the transactions, and
   - assets and liabilities at the closing rate.

   Such exchange differences arise both on income and expense items recognised in profit or loss and on those recognised directly in equity.

b) translating the opening net assets at a closing rate that differs from the previous closing rate.

Translate Foreign Operation

Exchange differences from intragroup elimination

- The incorporation of the results and financial position of a foreign operation with those of the reporting entity follows normal consolidation procedures (see IFRS 10).
- However, an intragroup monetary asset (or liability) cannot be eliminated against the corresponding intragroup liability (or asset) without showing the results of currency fluctuations in the consolidated financial statements.
- Accordingly, in the consolidated financial statements of the reporting entity, such an exchange difference
  – continues to be recognised in profit or loss, or
  – if it arises from the circumstances that relating to monetary items that forms a part of net investment in a foreign operation, it is classified as equity until the disposal of the foreign operation.

Translate Foreign Operation

Foreign operation with a different reporting date

- The foreign operation often prepares additional statements as of the same date as the reporting entity's financial statements.
- When this is not done, IFRS 10 allows the use of a different reporting date provided that the difference is no greater than 3 months and adjustments are made for the effects of any significant transactions or other events that occur between the different dates.
- In such a case, the assets and liabilities of the foreign operation are translated at the exchange rate at the end of the reporting period of the foreign operation.
- Adjustments are made for significant changes in exchange rates up to the end of the reporting period of the reporting entity in accordance with IFRS 10.
- The same approach is used in applying the equity method to associates and joint ventures and in applying proportionate consolidation to joint ventures in accordance with IAS 28.

Translate Foreign Operation

Goodwill arising on acquisition

- Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation
  - shall be treated as assets and liabilities of the foreign operation.
- Thus, they
  - shall be expressed in the functional currency of the foreign operation and
  - shall be translated at the closing rate

  (in accordance with the requirements on the functional currency which is or is not a currency hyperinflationary economy).

Translate Foreign Operation

- On the disposal of a foreign operation, the cumulative amount of the exchange differences deferred in the separate component of equity relating to that foreign operation
  - shall be recognised in profit or loss when the gain or loss on disposal is recognised.

Translate Foreign Operation

Example

On 1.1 Year 1	Parent P	Sub S
Property	$ 0	¥ 6,000
Investment	0	0
Cash at bank	30,000	2,000
	30,000	8,000
Issued equity	$ (30,000)	¥ (5,000)
Retained earnings	0	(3,000)
	(30,000)	(8,000)

Same example as before except …

MOP$1 = RMB 1 on 1.1 Year 1
MOP$1 = RMB 1 on 1.1 Year 2
MOP$1 = RMB 0.5 on 31.12 Year 2
(No profit for Year 2 for P and S)

On 1.1 Year 1
- Parent P acquired 20% interest in Subsidiary S at $3,500 by cash.
- Fair value of the property of S was $8,000.

During Year 1
- Parent P reported nil profit and profit of S was MOP$6,000 (became cash).
- Fair value of S is MOP$30,000 at year-end.
- P accounted for S as held for trading.

On 1.1 Year 2
- P acquired additional 60% interest in S at MOP$22,000 by cash.
- Fair value of the property of S was $11,000.

Translate Foreign Operation

Example

The calculation approach would be revised as ……

		NCI at old approach New 1
a(i)	**Consideration transferred**	22,000
a(ii)	**Non-controlling interest (NCI)** ($19K x 20%)	3,800
a(iii)	**Acquisition-date fair value of the acquirer's previously held equity interest in the acquiree**	7,333
		33,133
b.	**Acquisition-date amount of net identifiable assets**	
	Property, at fair value	11,000
	Cash	2,000
	Cash (profit for the year)	6,000
		19,000
Goodwill		**14,133**

Translate Foreign Operation

Example

Consolidation journals (for NCI at old approach):

		Dr($)	Cr($)
Dr	Investment ($7,333 – $6,000)	1,333	
Cr	Profit or loss		1,333
To remeasure the previously held 20% in S at acquisition-date fair value			
Dr	Property – fair value adjustment ($11,000 - $6,000)	5,000	
	Issued equity – subsidiary (given)	5,000	
	Retained earnings – subsidiary (given)	9,000	
	Goodwill (as calculated in last slide)	14,133	
Cr	Investment ($7,333 + $22,000)		29,333
	Non-controlling interest ($19,000 x 20%)		3,800
To recognise the goodwill and eliminate the investments with the equity shares			

Translate Foreign Operation

Example

On 1.1 Year 2	Parent P	Sub S	J#1	J#2	Consolidated
Property	$ 0	¥ 6,000		5,000	$ 11,000
Goodwill	0	0		14,133	14,133
Investment	28,000	0	1,333	(29,333)	0
Cash at bank	4,500	8,000			12,500
	32,500	14,000			37,633
Issued equity	$ (30,000)	¥ (5,000)		5,000	$ (30,000)
Retained earnings	(2,500)	(9,000)	(1,333)	9,000	(3,833)
Non-controlling int.	0	0		(3,800)	(3,800)
	(32,500)	(14,000)			(37,633)

Translate Foreign Operation

Try this ……

Example

On 31.12 Year 2	Parent P	Sub S	Sub S
Property	$ 0	¥ 6,000	$ 12,000
Goodwill	0	0	0
Investment	28,000	0	0
Cash at bank	4,500	8,000	16,000
	32,500	14,000	28,000
Issued equity	$ (30,000)	¥ (5,000)	$(10,000)
Retained earnings	(2,500)	(9,000)	(18,000)
Translation reserves	0	0	0
Non-controlling int.	0	0	0
	(32,500)	(14,000)	(28,000)

Please prepare the consolidated balance sheet of Parent P as at 31.12 of Year 2

Translate Foreign Operation

Example

Consolidation journals:

		Dr($)	Cr($)
Dr	Investment ($7,333 – $6,000)	1,333	
Cr	Profit or loss		1,333

To remeasure the previously held 20% in S at acquisition-date fair value

		Dr($)	Cr($)
Dr	Property – fair value adjustment (¥5,000 ÷ 0.5)	10,000	
	Issued equity – subsidiary (¥5,000 ÷ 0.5)	10,000	
	Retained earnings – subsidiary (¥9,000 ÷ 0.5)	18,000	
	Goodwill (¥14,133 ÷ 0.5)	28,266	
Cr	Investment		29,333
	Non-controlling interest (¥3,800 ÷ 0.5)		7,600
	Translation reserves (balancing figure)		**29,333**

To recognise the goodwill and eliminate the investments with the equity shares

Translate Foreign Operation

Example

Calculation of translation reserves

- Net investment in Subsidiary S at RMB as at 1.1 Year 2:

Property	¥ 11,000
Cash	8,000
Goodwill	14,133
	¥ 33,133
Less: Non-controlling interest	(3,800)
	¥ *29,333*

Re-translated at 31.12 Year 2 (at MOP$1 =RMB 0.5)	$ 58,666
Balance recognised at 1.1 Year 2 (at MOP$ 1 = RMB 1)	(29,333)
Exchange gain recognised in translation reserve	$ 29,333

Translate Foreign Operation

Example

On 31.12 Year 2	Parent P	Sub S	Sub S	J#1	J#2	Consolidated
Property	$ 0	¥ 6,000	$ 12,000		10,000	$ 22,000
Goodwill	0	0	0		28,266	28,266
Investment	28,000	0	0	1,333	(29,333)	0
Cash at bank	4,500	8,000	16,000			20,500
	32,500	14,000	28,000			70,766
Issued equity	$ (30,000)	¥ (5,000)	$(10,000)		10,000	$ (30,000)
Retained earnings	(2,500)	(9,000)	(18,000)	(1,333)	18,000	(3,833)
Translation reserve	0	0	0		(29,333)	(29,333)
Non-controlling int.	0	0	0		(7,600)	(7,600)
	(32,500)	(14,000)	(28,000)			(70,766)

Translate Foreign Operation

Case


第一太平 種得個「桔」?
壹計就明

2014年6月12日《壹週刊》

《第一太平種得個「桔」？》：

「影片《竊聽風雲3》有一句對白 ...『土地不是用來炒賣！』寓意土地有很多用途，例如耕種 ...」

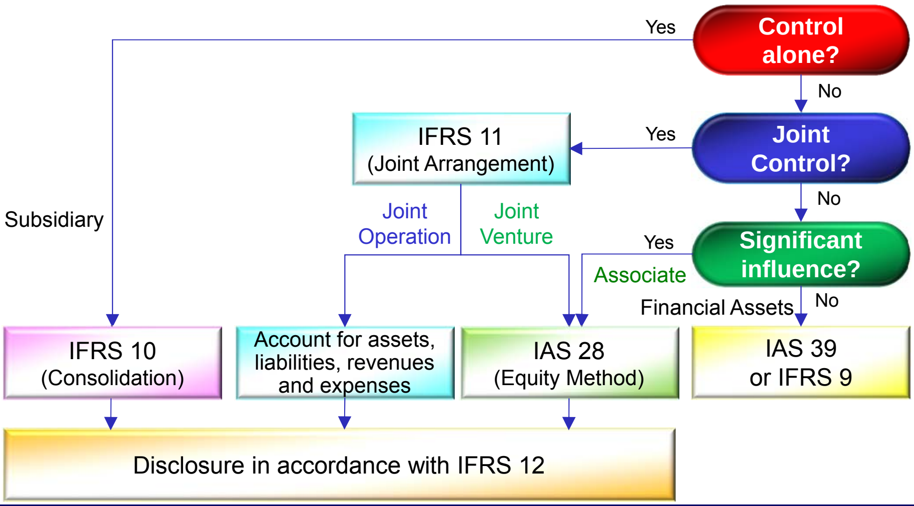
「投資者不單只看收益表，有跟從本欄一向建議，多翻看全面收益表，就很容易看到第一太平2013年換算海外業務之匯兌總差額竟達10億美元

- 令至6億美元年內溢利也因此變成4億美元年全面虧損
- 第一太平整體，在計入匯兌虧損下，都是『種』得個『桔』！」

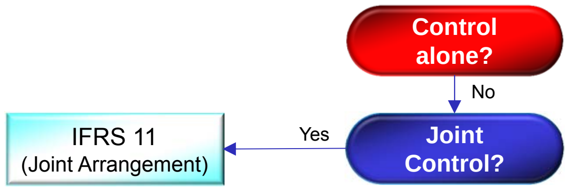
「《竊聽風雲3》中的周迅和吳彥祖是否也是「種」得個「桔」，影片中沒有跟進，但香港是否不用發展新區而又能解決住屋及其他問題，相信大家也會有自己的答案！」

IFRS 10, 11 and 12

Interaction between IFRS 10, 11 & 12, & IAS 28 & 39 (or IFRS 9)

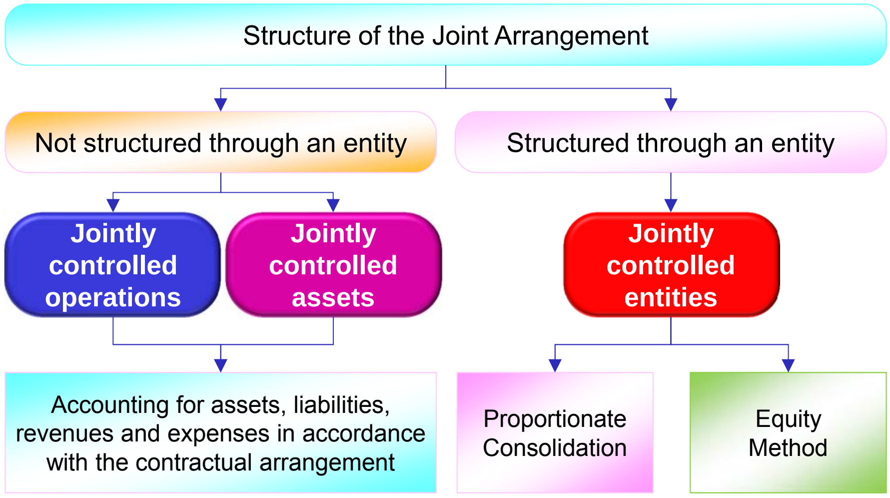


2. Joint Arrangement



IFRS 11 Joint Arrangements

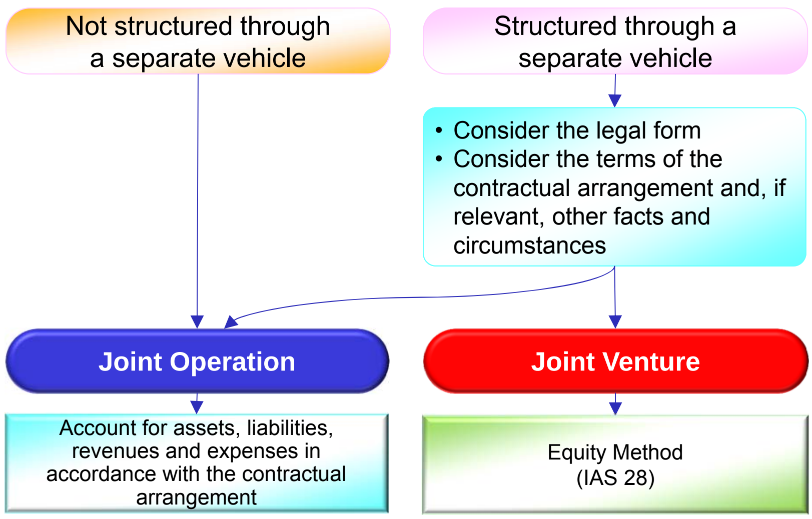
Previously in IAS 31



The graph is adapted from the IASB 27

IFRS 11 Joint Arrangements

Introduced and amended in IFRS 11



The graph is adapted from the IASB 28

IFRS 11 Joint Arrangements

- **Joint Arrangement**,
  - a new name to subrogate joint venture, simultaneously, joint venture has another meaning now
  - is defined to be an arrangement of which two or more parties have **joint control**.
  - has the following characteristics:
    a. The parties are bound by a contractual arrangement .
    b. The contractual arrangement gives two or more of those parties joint control of the arrangement.
    (IFRS 11.4-5)

Joint control is defined as
- the contractually agreed sharing of control of an arrangement,
- which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

IFRS 11 Joint Arrangements

Assessing Joint Control

Does the contractual arrangement give all the parties, or a group of the parties, control of the arrangement collectively?

- No → Outside the scope of IFRS 11
- Yes ↓

Do decisions about the relevant activities require the unanimous consent of all the parties, or of a group of the parties, that collectively control the arrangement?

- No → Outside the scope of IFRS 11
- Yes ↓

The arrangement is jointly controlled: the arrangement is a joint arrangement

The graph is adapted from IFRS 11.B10

IFRS 11 Joint Arrangements

- In consequence, joint arrangement is a new name to subrogate joint venture,
  - simultaneously, joint venture has another meaning now
- A new structure in classification, a joint arrangement is either (IFRS 11.6)

Joint Operation

Joint Venture

IFRS 11 Joint Arrangements

Joint Operation

A joint operation is

- a joint arrangement whereby the parties that have joint control of the arrangement have rights to ***the assets, and obligations for the liabilities***, relating to the arrangement.

Those parties are called joint operators (IFRS 11.15).

Joint Venture

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.

Those parties are called joint venturers (IFRS 11.16).

IFRS 11 Joint Arrangements

Joint Operation

Joint Venture

- 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. (IFRS 11.14)

IFRS 11 Joint Arrangements

Joint Operation

Joint Venture

- An entity applies judgement when assessing whether a joint arrangement is a joint operation or a joint venture.
- An entity shall determine the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement.
- An entity assesses its rights and obligations by considering
  - the structure and legal form of the arrangement,
  - the terms agreed by the parties in the contractual arrangement and,
  - when relevant, other facts and circumstances. (IFRS 11.17)

IFRS 11 Joint Arrangements

Introduced and amended in IFRS 11

Not structured through a separate vehicle

Structured through a separate vehicle

ii. Does the contractual arrangement specify that the parties have rights to the assets, and obligations for the liabilities?

iii. Are its activities primarily aimed to provide output to the parties? Does it depend on the parties on a continuous basis for setting liabilities?

Consider the legal form,
Consider the terms of the contractual arrangement, and
If relevant, other facts and circumstances

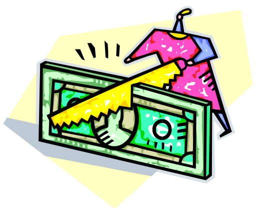
Joint Operation

Joint Venture

The graph is adapted from IFRS 11.B21

Joint Operation

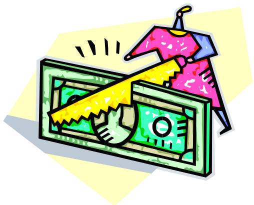
Joint Operation



- A joint operator shall recognise in relation to its interest in a joint operation:
  a. its assets, including its share of any assets held jointly;
  b. its liabilities, including its share of any liabilities incurred jointly;
  c. its revenue from the sale of its share of the output arising from the joint operation;
  d. its share of the revenue from the sale of the output by the joint operation; and
  e. its expenses, including its share of any expenses incurred jointly. (IFRS 11.20)

Joint Operation

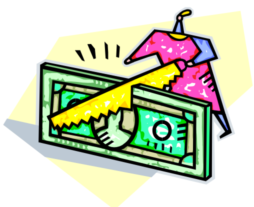
Joint Operation



- A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation <u>in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses</u>. (IFRS 11.21)
- The accounting for transactions such as the sale, contribution or purchase of assets between an entity and a joint operation in which it is a joint operator is specified in IFRS 11.B34–B37. (IFRS 11.22)

Joint Operation

Joint Operation



- <u>Accounting for sales or contributions of assets to a joint operation</u>
  - When an entity enters into a transaction with a joint operation in which it is a joint operator, such as a sale or contribution of assets, it is conducting the transaction with the other parties to the joint operation and, as such, the joint operator <u>shall recognise gains and losses</u> resulting from such a transaction <u>only to the extent of the other parties' interests in the joint operation</u>. (IFRS 11.B34)
  - When such transactions provide evidence of a reduction in the net realisable value of the assets to be sold or contributed to the joint operation, or of an impairment loss of those assets, <u>those losses shall be recognised fully</u> by the joint operator. (IFRS 11.B35)

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Joint Operation

Joint Operation

- Accounting for purchases of assets from a joint operation
  - When an entity enters into a transaction with a joint operation in which it is a joint operator, such as a purchase of assets, it shall not recognise its share of the gains and losses until it resells those assets to a third party. (IFRS 11.B36)
  - When such transactions provide evidence of a reduction in the net realisable value of the assets to be purchased or of an impairment loss of those assets, a joint operator shall recognise its share of those losses. (IFRS 11.B37)

Joint Operation

Joint Operation

- A party that participates in, but does not have joint control of, a joint operation
  - having rights to the assets, and obligations for the liabilities, relating to the joint operation
    - It shall also account for its interest in the arrangement in accordance with IFRS 11.20–22 (i.e. in the same manner as joint operator as set out above)
  - Not having rights to the assets, and obligations for the liabilities, relating to that joint operation,
    - It shall account for its interest in the joint operation in accordance with the IFRSs applicable to that interest. (IFRS 11.23)

Joint Venture

Joint Venture

- 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 IAS 28 (IFRS 11.24).
- IAS 28 is renamed as "*Investments in Associates and Joint Ventures*"

Joint Venture

Joint Venture

- A party that participates in, but does not have joint control of, a joint venture
  - shall account for its interest in the arrangement in accordance with IFRS 9 *Financial Instruments*,
    - unless it has significant influence over the joint venture, in which case it shall account for it in accordance with IAS 28 (as amended in 2011). (IFRS 11.25)

IFRS 11: Implication & Other

Case

壹計就明 業績摘要 摘喜不摘「憂」

本欄找來有二十多年經驗的資深會計師林智遠及鄒碩智，每期踢爆一間上市公司的會計陷阱，股民入市前睇清睇楚，一計就明。

合和基建(737)一月底公布中期業績，佔溢利九成多的「應佔合營企業業績」，下跌超過5%，但溢利保持0.5%增幅，主要是母公司財務成本下降和其他收入上升抵銷了跌幅。

從這份通告，投資者可注意幾點。

首先，今年度業績期將至，分析財務報表時，務必留意新會計準則對「共同安排」(Joint Arrangement)的要求。以合和基建為例，基建企業常以共同安排中的「合營企業」參與國內項目，在新準則下，已不能採用比例綜合法入賬，而要劃一用權益法入賬。這表示當中合營企業的收入、支出、資產和負債，將不能分項併入報表中，只能以應佔業績和淨資產併入報表。需要精細分析合營企業的話，就要看報表附註了。

合和基建在新準則下，期內溢利和總權益不受影響，但各項收支和資產負債卻大幅減少，如去年總負債是87億元人民幣，但今年總負債只14億元人民幣。如果投資者忽略新準則的影響，便會誤以為總負債是大幅減少了！而實際上卻是上升了6%！

業績公告也每每包括摘要，但摘要是否真的「摘」錄業績之精「要」？或是管理層只摘喜，而不摘「憂」？

看合和基建中期業績摘要，隻字不提溢利和應佔合營企業業績的增減，只簡述當期溢利後，就反覆用「增長」、「強勁增長」和「躍升」去形容公路流量和收入，但這是否就代表溢利上升？相信投資者也很清楚，收入上升也要成本控制得宜，才可有溢利增長。

合和基建的現實，是國內項目業績下跌9%，新公路建成通車，使綜合營銷及財務費用分別上升25%和50%。這些重要的數據，只能自己在年報逐隻字細閱了！（林智遠）

由胡應湘打骰的合和基建，其中期業績摘要只報喜不報憂，讀者唯有自己睇清楚每個細項。

2014年2月5日《壹週刊》

《業績摘要　摘喜不摘「憂」》:

「業績公告也每每包括摘要，但摘要是否真的「摘」錄業績之精「要」？或是管理層只摘喜，而不摘「憂」？」

「合和基建（737）一月底公布中期業績，佔溢利九成多的「應佔合營企業業績」，下跌超過5%，但溢利保持0.5%增幅，主要是母公司財務成本下降和其他收入上升抵銷了跌幅。」

「從這份通告，投資者可注意幾點 ……」

IFRS 11: Implication & Other

Case

2014年2月5日《壹週刊》

《業績摘要　摘喜不摘「憂」》:

「今年度業績期將至，分析財務報表時，務必留意新會計準則對「共同安排」（Joint Arrangement）的要求。」

「以合和基建為例，基建企業常以共同安排中的「合營企業」參與國內項目，在新準則下，已不能採用比例綜合法入賬，而要劃一用權益法入賬。

- 這表示當中合營企業的收入、支出、資產和負債，將不能分項併入報表中，只能以應佔業績和淨資產併入報表。
- 需要精細分析合營企業的話，就要看報表附註了。」

IFRS 11: Implication & Other

日《壹週刊》

From IAS 31

- Jointly controlled operations
- Jointly controlled assets
- Jointly controlled entities

To IFRS 11

- Joint Operation
  - Account for assets, liabilities, revenues and expenses in accordance with the contractual arrangement (IFRS 11)
- Joint Venture
  - Equity Method (IAS 28)

IFRS 11: Implication & Other

Case

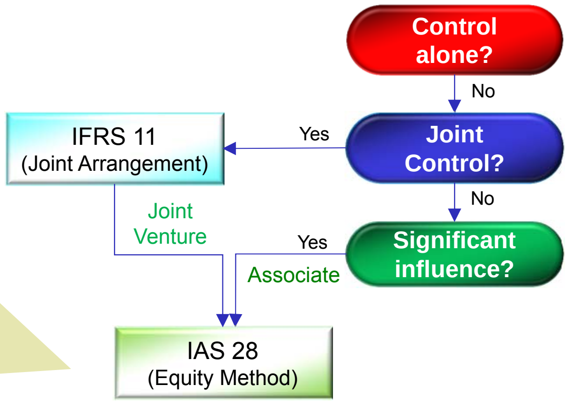
2014年2月5日《壹週刊》

《業績摘要　摘喜不摘「憂」》：

「看合和基建中期業績摘要，隻字不提溢利和應佔合營企業業績的增減，只簡述當期溢利後，就反覆用「增長」、「強勁增長」和「躍升」去形容公路流量和收入，但這是否就代表溢利上升？相信投資者也很清楚，收入上升也要成本控制得宜，才可有溢利增長。」

「合和基建的現實，是國內項目業績下跌9%，新公路建成通車，使綜合攤銷及財務費用分別上升25%和50%，這些重要的數據，只能自己在年報逐隻字細閱了！」

2. Associate and Equity Method



IAS 28 Investments in Associates and JV

- An associate is an entity over which the investor has significant influence (IAS 28.3)
  - 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 (IAS 28.3)

Significant influence?

What is Significant Influence?

What is Associate?

- Significant influence
  - If an entity holds, directly or indirectly (e.g. through subsidiaries), 20 per cent or more of the voting power of the investee,
    - it is presumed that the entity has significant influence, unless it can be clearly demonstrated that this is not the case.
  - Conversely, if the entity 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 entity 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 entity from having significant influence (IAS 28.5)

What is Significant Influence?

What is Associate?

- The existence of significant influence by an entity 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 entity and its investee;
  d. interchange of managerial personnel; or
  e. provision of essential technical information.

What is Significant Influence?

What is Associate?

Loss of Significant Influence

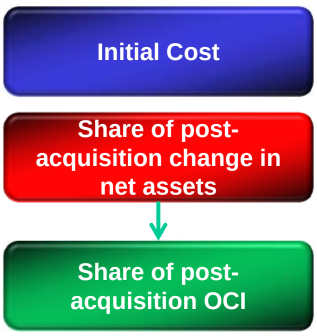
– An entity loses significant influence over an investee
  - when it loses the power to participate in the financial and operating policy decisions of that investee.

– 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 arrangement (IAS 28.9)

What is Significant Influence?

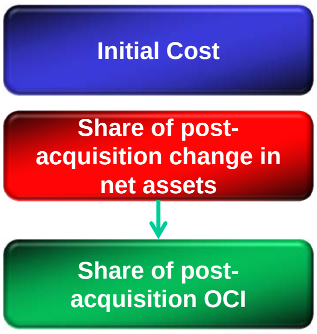
Equity Method

- 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 the investee's net assets**.
- The investor's profit or loss includes
  – its share of the investee's profit or loss and
- The investor's other comprehensive income includes
  – its share of the investee's other comprehensive income. (IAS 28.3)
  – 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.



Equity Method for Associate & JV

- 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*) (IAS 28.10)



Equity Method for Associate & JV

- **Rationale in Applying the Equity Method**
  - 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 or a joint venture
    - because the distributions received may bear little relation to the performance of the associate or joint venture.
  - Because the investor has joint control of, or significant influence over
    - the investee, the investor has an interest in the associate's or joint venture'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 the profit or loss of such an investee
    - As a result, application of the equity method provides more informative reporting of the investor's net assets and profit or loss (IAS 28.11)

Equity Method for Associate & JV

- An entity with joint control of, or significant influence over, an investee shall account for its investment in an associate or a joint venture using the **equity method**
  - except when that investment qualifies for exemption in accordance with IAS 28.17 to 28.19.

Initial Cost

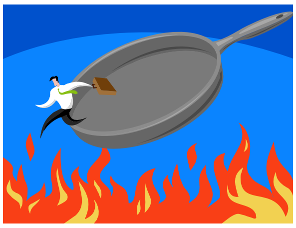
Share of post-acquisition change in net assets

Equity Method – Exemption

- An entity need not apply the equity method to its investment in an associate or a joint venture
  - If it is a parent that is exempt from preparing consolidated financial statements by the scope exception in IFRS 10.4(a) or
  - If all the following apply:
    a. The entity 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 entity not applying the equity method
    b. The entity's debt or equity instruments are not traded in a public market
    c. The entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation, for the purpose of issuing any class of instruments in a public market
    d. The ultimate or any intermediate parent of the entity produces consolidated financial statements available for public use that comply with IFRSs (IAS 28.17)

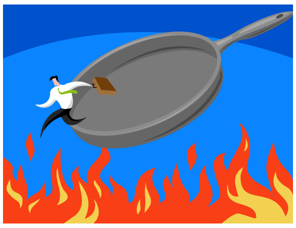
Equity Method – Exemption

- When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds,
  - the entity may elect to measure investments in those associates and joint ventures at fair value through profit or loss in accordance with IFRS 9 (IAS 28.18)



Equity Method – Exemption

- When an entity has an investment in an associate, a portion of which is held indirectly through a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds,
  - the entity may elect to measure that portion of the investment in the associate at fair value through profit or loss in accordance with IFRS 9 regardless of whether the venture capital organisation, or the mutual fund, unit trust and similar entities including investment-linked insurance funds, has significant influence over that portion of the investment (IAS 28.19)



Classification as Held for Sale

- An entity shall apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale
  - Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method until disposal of the portion that is classified as held for sale takes place
  - After the disposal takes place, an entity shall account for any retained interest in the associate or joint venture in accordance with IFRS 9 unless the retained interest continues to be an associate or a joint venture, in which case the entity uses the equity method (IAS 28.20)

Classification as Held for Sale

- When an investment, or a portion of an investment, in an associate or a joint venture previously classified as held for sale no longer meets the criteria to be so classified,
  - it shall be accounted for using the equity method retrospectively 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 (IAS 28.21)

    i.e. all financial statements for the prior periods shall be amended

Classification as Held for Sale

Example

- Entity Jedi acquired 30% interest in Neo in Year 0 at $20,000 without any goodwill in the acquisition and accounted it as an associate.
- In July of Year 0, Jedi decided to sell Neo and classified it as held for sale. Then, for Year 0, Neo reported a loss of $10,000.
- Fair value less cost to sale of Neo was $20,000 in Year 0 and Year 1.
- At the end of Year 1, Neo reported a further loss of $10,000.
- By reviewing the criteria in IFRS 5, Neo can no longer be classified as held for sale at the end of Year 1.
- Jedi's balance sheet in Year 0 while Neo was classified as held for sale:

	Year 0
Investment in associate held for sale	$20,000

- Jedi's balance sheet in Year 1:

	Year 1	Year 0 (Restated)
Interests in associate	$14,000	$17,000
	($17,000 - $10,000 x 30%)	($20,000 - $10,000 x 30%)

Discontinue Equity Method

- An entity shall discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture as follows:
  a. If the investment becomes a subsidiary,
     - the entity shall account for its investment in accordance with IFRS 3 and IFRS 10

Discontinue Equity Method

b. If the retained interest in the former associate or joint venture is a financial asset, the entity shall measure the retained interest at fair value.
   - The **fair value** of the retained interest shall be regarded as its fair value on initial recognition as a financial asset in accordance with IFRS 9.
   - The entity shall **recognise in profit or loss** any difference between:
     i. the **fair value** of any retained interest and any **proceeds** from disposing of a part interest in the associate or joint venture; and
     ii. the **carrying amount** of the investment at the date the equity method was discontinued

Discontinue Equity Method

c. When an entity discontinues the use of the equity method,
   - the entity shall account for all amounts previously recognised in other comprehensive income in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities (IAS 28.22)

Discontinue Equity Method

- Therefore, if a gain or loss previously recognised in other comprehensive income by the investee would be reclassified to profit or loss on the disposal of the related assets or liabilities,
  - the entity reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

Discontinue Equity Method

Example

- ABC's associate has cumulative exchange differences relating to a foreign operation
- ABC discontinues the use of the equity method

- ABC shall reclassify to profit or loss the gain or loss that had previously been recognised in other comprehensive income in relation to the foreign operation

Discontinue Equity Method

- If an investment in an associate becomes an investment in a joint venture, or
  an investment in a joint venture becomes an investment in an associate,
  - the entity continues to apply the equity method and does not remeasure the retained interest (IAS 28.24)

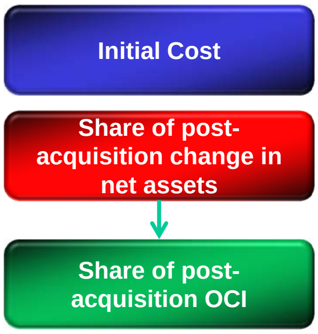
Changes in Ownership Interest

- If an entity's ownership interest in an associate or a joint venture is reduced, but the entity continues to apply the equity method,
  - the entity shall reclassify to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest
    - if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities (IAS 28.25)

Equity Method Procedures

1. Main Principle

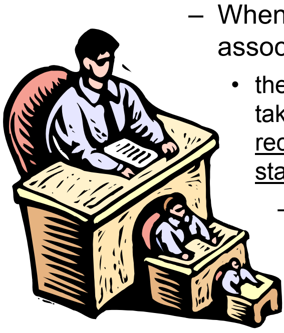
- Many of the procedures that are appropriate for the application of the equity method
  - are similar to the consolidation procedures described in IFRS 10
- Furthermore, the concepts underlying the procedures used in accounting for the acquisition of a subsidiary
  - are also adopted in accounting for the acquisition of an investment in an associate or a joint venture (IAS 28.26)



Equity Method Procedures

2. Complex Holding Structure

- A group's share in an associate or a joint venture is the aggregate of the holdings in that associate or joint venture 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 or a joint venture has subsidiaries, associates or joint ventures,
  - the profit or loss, other comprehensive income and net assets taken into account in applying the equity method are those recognised in the associate's or joint venture's financial statements,
    - including the associate's or joint venture's share of the profit or loss, other comprehensive income and net assets of its associates and joint ventures, after any adjustments necessary to give effect to uniform accounting policies (see IAS 28.35 and 36) (IAS 28.27)



Equity Method Procedures

3. Acquisition and Timing to Use Equity Method

– An investment is accounted for using the equity method from the date on which it becomes an associate or a joint venture.

– On acquisition of the investment:

a. Goodwill relating to an associate or a joint venture is included in the carrying amount of the investment

  – Amortisation of that goodwill is not permitted

b. Any excess of the entity's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment (i.e. goodwill being negative) is included as income in the determination of the entity's share of the associate or joint venture's profit or loss in the period in which the investment is acquired

Equity Method Procedures

3. Acquisition and Timing to Use Equity Method

– Appropriate 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.
- for impairment losses such as for goodwill or property, plant and equipment. (IAS 28.32)

Equity Method Procedures

Example

- Largo purchased a 40% interest in Micro, a limited liability investment company in Year 1.
  - The stake in Micro was purchased for cash for $11 million.
  - On the acquisition date,
    - the carrying value of the net assets of Micro was $18 million and
    - their fair value was $20 million.

- When an associate is acquired, the share of the underlying net assets should be fair valued and goodwill accounted for. Therefore,

	$m
Cash consideration	11
Fair value of shares at acquisition (40% x $20m)	8
Goodwill	3

- Amortisation of goodwill is not permitted

Equity Method Procedures

4. Financial Statements of Associate or Joint Venture

- The most recent available financial statements of the associate or joint venture are used by the entity in applying the equity method.
- When the end of the reporting period of the entity is different from that of the associate or joint venture,
  - the associate or joint venture prepares, for the use of the entity, financial statements as of the same date as the financial statements of the entity unless it is impracticable to do so. (IAS 28.33)

Equity Method Procedures

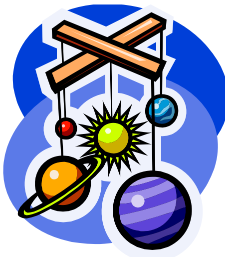
4. Financial Statements of Associate or Joint Venture

- When, in accordance with IAS 28.33, the financial statements of an associate or a joint venture used in applying the equity method are prepared as of a date different from that used by the entity,
  - adjustments shall be made for the effects of significant transactions or events that occur between
    - that date and
    - the date of the entity's financial statements.
  - In any case, the difference between the end of the reporting period of the associate or joint venture and that of the entity shall be no more than three months.
  - The length of the reporting periods and any difference between the ends of the reporting periods shall be the same from period to period (IAS 28.34)

Equity Method Procedures

5. Losses of Associate or Joint Venture

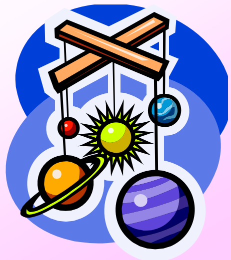
- If an entity's share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture,
  - the entity **discontinues recognising its share of further losses**.
- The interest in an associate or a joint venture is
  - the carrying amount of the investment in the associate or joint venture determined using the equity method
  - together with any long-term interests that, in substance, form part of the entity's net investment in the associate or joint venture.
- Losses recognised using the equity method in excess of the entity's investment in ordinary shares
  - are applied to the other components of the entity's interest in an associate or a joint venture in the reverse order of their seniority (i.e. priority in liquidation). (IAS 28.38)



Equity Method Procedures

Example

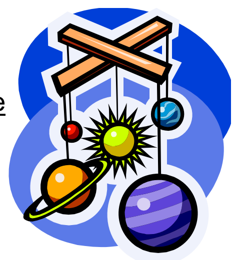
- **Examples of long-term interests that, in substance, form part of the entity's net investment in the associate or joint venture**
  - An item for which settlement is neither planned nor likely to occur in the foreseeable future
    - is, in substance, an extension of the entity's investment in that associate or joint venture.
  - 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.



Equity Method Procedures

5. Losses of Associate or Joint Venture

- After the entity's interest is reduced to zero,
  - additional losses are provided for, and a liability is recognised, only to the extent that the entity has
    - incurred legal or constructive obligations or
    - made payments on behalf of the associate or joint venture.
- If the associate or joint venture subsequently reports profits,
  - the entity resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised. (IAS 28.39)



Impairment Losses

- After application of the equity method, including recognising the associate's or joint venture's losses in accordance with IAS 28.38,
  - the entity applies **IAS 39** to determine whether it is necessary to recognise any additional impairment loss with respect to
    - its net investment in the associate or joint venture (IAS 28.40)
    - its interest in the associate or joint venture that does not constitute part of the net investment and the amount of that impairment loss (IAS 28.41)

Impairment Losses

- Because goodwill that forms part of the carrying amount of an investment in an associate or a joint venture is not separately recognised,
  - it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36
- 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** (higher of value in use and fair value less costs to sell) with
  - its **carrying amount**, whenever application of IAS 39 indicates that the investment may be impaired.

Discl. Interests in Other Entities
(IFRS 12)

IFRS 12 Discl. of Interest in Other Entities

- The objective of IFRS 12 is to require an entity to disclose information that enables users of its financial statements to evaluate:
  a. the nature of, and risks associated with, its interests in other entities; and
  b. the effects of those interests on its financial position, financial performance and cash flows (IFRS 12.1).

IFRS 12 Discl. of Interest in Other Entities

- To meet the objective of IFRS 12, an entity shall disclose:
  a. the significant judgements and assumptions it has made
    - in determining the nature of its interest in another entity or arrangement, and
    - in determining the type of joint arrangement in which it has an interest; and

  b. information about its interests in:
    i. subsidiaries;
    ii. joint arrangements and associates; and
    iii. structured entities that are not controlled by the entity (unconsolidated structured entities) (IFRS 12.2).

What is Structured Entity?

IFRS 12 Discl. of Interest in Other Entities

- Structured entity is defined as:
  – An entity that has been designed so that
    - voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and
    - the *relevant activities* are directed by means of contractual arrangements.
- IFRS 12.B22–B24 provide further information about structured entities.

What is Structured Entity?

IFRS 12 Discl. of Interest in Other Entities

- Structured entity often has some or all of the following features or attributes:
  a. restricted activities.
  b. a narrow and well-defined objective, such as
     - to effect a tax-efficient lease,
     - to carry out research and development activities,
     - to provide a source of capital or funding to an entity or
     - to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors.
  c. insufficient equity to permit the structured entity to finance its activities without subordinated financial support.
  d. financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches). (IFRS 12.B22).

Examples include:
a. securitisation vehicles,
b. asset-backed financings.
c. some investment funds.

What is Structured Entity?

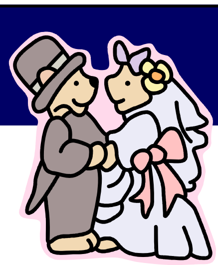
Significant Judgements and Assumptions

- An entity shall disclose information about significant judgements and assumptions it has made (and changes to those judgements and assumptions) in determining:
  a. that it has control of another entity, i.e. an investee as described in IFRS 10.5 and 6;
  b. that it has joint control of an arrangement or significant influence over another entity; and
  c. the type of joint arrangement (i.e. joint operation or joint venture) when the arrangement has been structured through a separate vehicle. (IFRS 12.7)

Significant Judgements and Assumptions

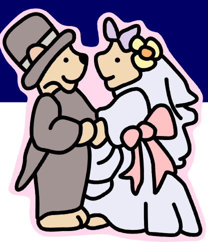
- To comply with IFRS 12.7, an entity shall disclose, for example, significant judgements and assumptions made in determining that:
  a. it does not control another entity even though it holds more than half of the voting rights of the other entity.
  b. it controls another entity even though it holds less than half of the voting rights of the other entity.
  c. it is an agent or a principal (see IFRS 10.58–72).
  d. it does not have significant influence even though it holds 20% or more of the voting rights of another entity.
  e. it has significant influence even though it holds less than 20% of the voting rights of another entity. (IFRS 12.9)

Interests in Subsidiaries



- An entity shall disclose information that enables users of its consolidated financial statements
  a. to understand:
     i. the composition of the group; and
     ii. the interest that non-controlling interests have in the group's activities and cash flows; and
  b. to evaluate:
     i. the nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group;
     ii. the nature of, and changes in, the risks associated with its interests in consolidated structured entities;
     iii. the consequences of changes in its ownership interest in a subsidiary that do not result in a loss of control; and
     iv. the consequences of losing control of a subsidiary during the reporting period. (IFRS 12.10)

Interests in Subsidiaries



- When the financial statements of a subsidiary used in the preparation of consolidated financial statements are as of a date or for a period that is different from that of the consolidated financial statements (see IFRS 10.B92 and B93), an entity shall disclose:
  a. the date of the end of the reporting period of the financial statements of that subsidiary; and
  b. the reason for using a different date or period. (IFRS 12.11)

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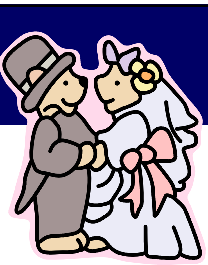
Interests in Subsidiaries



- An entity shall disclose for each of its subsidiaries that have non-controlling interests that are material to the reporting entity:
  (a) the name of the subsidiary.
  (b) the principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary.
  (c) the proportion of ownership interests held by non-controlling interests.
  (d) the proportion of voting rights held by non-controlling interests, if different from the proportion of ownership interests held.
  (e) the profit or loss allocated to non-controlling interests of the subsidiary during the reporting period.
  (f) accumulated non-controlling interests of the subsidiary at the end of the reporting period.
  (g) summarised financial information about the subsidiary (see IFRS 12.B10). (IFRS 12.12)

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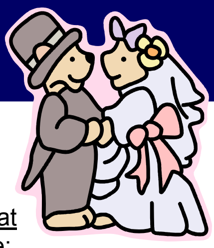
Interests in Subsidiaries



- **Summarised Financial Information for Subsidiaries (IFRS 12.12)**
  - For **each subsidiary** that has non-controlling interests that are material to the reporting entity, an entity shall disclose:
    - (a) dividends paid to non-controlling interests.
    - (b) summarised financial information about the assets, liabilities, profit or loss and cash flows of the subsidiary that enables users to understand the interest that non-controlling interests have in the group's activities and cash flows.
      - That information might include but is not limited to, for example, current assets, non-current assets, current liabilities, non-current liabilities, revenue, profit or loss and total comprehensive income. (IFRS 12.B10)
  - The summarised financial information required by IFRS 12.B10(b) shall be the amounts before inter-company eliminations. (IFRS 12.B11)

Joint Arrangements and Associates

- An entity shall disclose information that enables users of its financial statements to evaluate:
  a. the nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its contractual relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates; and
  b. the nature of, and changes in, the risks associated with its interests in joint ventures and associates. (IFRS 12.20)

Joint Arrangements and Associates

- An entity shall disclose:
  - (a) for **each joint arrangement and associate** that is material to the reporting entity:
    - (i) the name of the joint arrangement or associate.
    - (ii) the nature of the entity's relationship with the joint arrangement or associate (by, for example, describing the nature of the activities of the joint arrangement or associate and whether they are strategic to the entity's activities).
    - (iii) the principal place of business (and country of incorporation, if applicable and different from the principal place of business) of the joint arrangement or associate.
    - (iv) the proportion of ownership interest or participating share held by the entity and, if different, the proportion of voting rights held (if applicable).

Joint Arrangements and Associates

- An entity shall disclose:
  - (b) for **each joint venture and associate** that is material to the reporting entity:
    - (i) whether the investment in the joint venture or associate is measured using the equity method or at fair value.
    - (ii) summarised financial information about the joint venture or associate as specified in IFRS 12.B12 and B13.
    - (iii) if the joint venture or associate is accounted for using the equity method, the fair value of its investment in the joint venture or associate, if there is a quoted market price for the investment.
  - (c) financial information as specified in IFRS 12.B16 about the entity's investments in joint ventures and associates that are not individually material:
    - (i) in aggregate for all individually immaterial joint ventures and, separately,
    - (ii) in aggregate for all individually immaterial associates. (IFRS 12.21)

Joint Arrangements and Associates

- **Summarised Financial Information for Joint Ventures and Associates (IFRS 12.20)**
  - For **<u>each joint venture and associate</u>** that is <u>material</u> to the reporting entity, an entity shall disclose:
    (a) dividends received from the joint venture or associate.
    (b) summarised financial information for the joint venture or associate (see IFRS 12.B14 and B15) including, but not necessarily limited to:
      (i) current assets.
      (ii) non-current assets.
      (iii) current liabilities.
      (iv) non-current liabilities.
      (v) revenue.
      (vi) profit or loss from continuing operations.
      (vii) post-tax profit or loss from discontinued operations.
      (viii) other comprehensive income.
      (ix) total comprehensive income.
      (IFRS 12.B12)

Joint Arrangements and Associates

- **Summarised Financial Information for Joint Ventures and Associates (IFRS 12.20)**

Summarised financial information about the material associate, i.e. Stephanie Associate Limited, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the company's financial statements, are disclosed below:

	<u>2013</u> HK$	<u>2012</u> HK$
<u>Gross amounts of the associate</u>		
Current assets		
Non-current assets		
Current liabilities		
Non-current liabilities		
Equity		
Revenue		
Profit from continuing operations		
Post-tax profit or loss from discontinued operations		
Other comprehensive income		
Total comprehensive income		
Dividend received from the associate		

Joint Arrangements and Associates

- **Summarised Financial Information for Joint Ventures and Associates (IFRS 12.20)**
  - In addition to the summarised financial information required by paragraph B12, an entity shall disclose for <u>**each joint venture**</u> <u>that is material</u> to the reporting entity the amount of:
    - (a) cash and cash equivalents included in paragraph B12(b)(i).
    - (b) current financial liabilities (excluding trade and other payables and provisions) included in paragraph B12(b)(iii).
    - (c) non-current financial liabilities (excluding trade and other payables and provisions) included in paragraph B12(b)(iv).
    - (d) depreciation and amortisation.
    - (e) interest income.
    - (f) interest expense.
    - (g) income tax expense or income. (IFRS 12.B13)

Joint Arrangements and Associates

- **Summarised Financial Information for Joint Ventures and Associates (IFRS 12.20)**
  - In addition to the summarised financial information required by paragraph B12, an entity shall disclose for <u>**each joint venture**</u> <u>that is material</u> to the reporting entity the amount of:

<u>Additional summarised financial information about the material joint venture (included in the above assets, liabilities and profit of the material joint venture):</u>

	<u>2013</u> HK$	<u>2012</u> HK$
Cash and cash equivalents		
Current financial liabilities (excluding trade and other payables and provisions)		
Non-current financial liabilities (excluding trade and other payables and provisions)		
Depreciation and amortisation		
Interest income.		
Interest expense		
Income tax expense or income		

Joint Arrangements and Associates

- **Summarised Financial Information for Joint Ventures and Associates (IFRS 12.20)**
  - The summarised financial information presented in accordance with IFRS 12.B12 and B13 shall be the amounts included in the IFRS financial statements of the joint venture or associate (and not the entity's share of those amounts).
  - If the entity accounts for its interest in the joint venture or associate using the equity method:
    - (a) the amounts included in the IFRS financial statements of the joint venture or associate shall be adjusted to reflect adjustments made by the entity when using the equity method, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.
    - (b) the entity shall provide a reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint venture or associate. (IFRS 12.B14)

Joint Arrangements and Associates

- **Summarised Financial Information for Joint Ventures and Associates (IFRS 12.20)**
  - The summarised financial information presented in accordance with IFRS 12.B12 and B13 shall be the amounts included in the IFRS financial statements of the joint venture or associate (and not the entity's share of those amounts).

Reconciled to the company's interests in the associate
Gross amounts of net assets of the associate
The company's effective interest
The company's share of net assets of the associate
Carrying amount in the company's financial statements

Reconciled to the company's interests in the joint venture
Gross amounts of net assets of the joint venture
The company's effective interest
The company's share of net assets of the joint venture
Carrying amount in the company's financial statements

Joint Arrangements and Associates

- **Summarised Financial Information for Joint Ventures and Associates (IFRS 12.20)**
  - An entity may present the summarised financial information required by IFRS 12.B12 and B13 on the basis of the joint venture's or associate's financial statements if:
    - (a) the entity measures its interest in the joint venture or associate at fair value in accordance with IAS 28 (as amended in 2011); and
    - (b) the joint venture or associate does not prepare IFRS financial statements and preparation on that basis would be impracticable or cause undue cost.
  - In that case, the entity shall disclose the basis on which the summarised financial information has been prepared. (IFRS 12.B15)

Joint Arrangements and Associates

- **Summarised Financial Information for Joint Ventures and Associates (IFRS 12.20)**
  - An entity shall disclose, in aggregate, the carrying amount of its interests in all individually immaterial joint ventures or associates that are accounted for using the equity method.
  - An entity shall also disclose separately the aggregate amount of its share of those joint ventures' or associates':
    - (a) profit or loss from continuing operations.
    - (b) post-tax profit or loss from discontinued operations.
    - (c) other comprehensive income.
    - (d) total comprehensive income.
  - An entity provides the disclosures separately for joint ventures and associates. (IFRS 12.B16)

Joint Arrangements and Associates

- **Summarised Financial Information for Joint Ventures and Associates (IFRS 12.20)**
  - An entity shall disclose, in aggregate, the carrying amount of its interests in all individually immaterial joint ventures or associates that are accounted for using the equity method.

Aggregate information of associates that are not individually material:

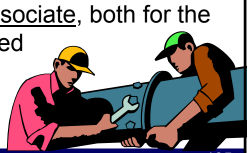
	2013 HK$	2012 HK$
Aggregate carrying amount of individually immaterial associates in the company's financial statements		
Aggregate amounts of the company's share of those associates		
Profit from continuing operations		
Post-tax profit or loss from discontinued operations		
Other comprehensive income		
Total comprehensive income		

Joint Arrangements and Associates

- **Summarised Financial Information for Joint Ventures and Associates (IFRS 12.20)**
  - When an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*,
    - the entity is not required to disclose summarised financial information for that subsidiary, joint venture or associate in accordance with IFRS 12.B10–B16. (IFRS 12.B17)

Joint Arrangements and Associates

- An entity shall also disclose:
  - (a) the nature and extent of any significant restrictions (e.g. resulting from borrowing arrangements, regulatory requirements or contractual arrangements between investors with joint control of or significant influence over a joint venture or an associate) on the ability of joint ventures or associates to transfer funds to the entity in the form of cash dividends, or to repay loans or advances made by the entity.
  - (b) when the financial statements of a joint venture or associate used in applying the equity method are as of a date or for a period that is different from that of the entity:
    - (i) the date of the end of the reporting period of the financial statements of that joint venture or associate; and
    - (ii) the reason for using a different date or period.
  - (c) the unrecognised share of losses of a joint venture or associate, both for the reporting period and cumulatively, if the entity has stopped recognising its share of losses of the joint venture or associate when applying the equity method. (IFRS 12.22)



Joint Arrangements and Associates

- An entity shall also disclose:
  - (a) commitments that it has relating to its joint ventures separately from the amount of other commitments as specified in IFRS 12.B18–B20.
  - (b) in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, unless the probability of loss is remote, contingent liabilities incurred relating to its interests in joint ventures or associates (including its share of contingent liabilities incurred jointly with other investors with joint control of, or significant influence over, the joint ventures or associates), separately from the amount of other contingent liabilities. (IFRS 12.23)

Unconsolidated Structured Entities

- An entity shall disclose information that enables users of its financial statements:
  a. to understand the nature and extent of its interests in unconsolidated structured entities (IFRS 12.26-28); and
  b. to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities (IFRS 12.29-31). (IFRS 12.24)
- The information required by IFRS 12.24(b) includes
  - information about an entity's exposure to risk from involvement that it had with unconsolidated structured entities in previous periods (eg sponsoring the structured entity), even if the entity no longer has any contractual involvement with the structured entity at the reporting date. (IFRS 12.25)

Unconsolidated Structured Entities

- An entity shall disclose
  – qualitative and quantitative information about its interests in unconsolidated structured entities, including, but not limited to, the nature, purpose, size and activities of the structured entity and
  – how the structured entity is financed. (IFRS 12.26)

Unconsolidated Structured Entities

- If an entity has sponsored an unconsolidated structured entity for which it does not provide information required by IFRS 12.29 (e.g. because it does not have an interest in the entity at the reporting date), the entity shall disclose:
  a. how it has determined which structured entities it has sponsored;
  b. income from those structured entities during the reporting period, including a description of the types of income presented; and
  c. the carrying amount (at the time of transfer) of all assets transferred to those structured entities during the reporting period. (IFRS 12.27)
- An entity shall present the information in IFRS 12.27(b) and (c) in tabular format,
  – unless another format is more appropriate, and classify its sponsoring activities into relevant categories (see IFRS 12.B2-B6). (IFRS 12.28)

Unconsolidated Structured Entities

- An entity shall disclose in tabular format, unless another format is more appropriate, a summary of:
  a. the carrying amounts of the assets and liabilities recognised in its financial statements relating to its interests in unconsolidated structured entities.
  b. the line items in the statement of financial position in which those assets and liabilities are recognised.
  c. the amount that best represents the entity's maximum exposure to loss from its interests in unconsolidated structured entities, including how the maximum exposure to loss is determined. If an entity cannot quantify its maximum exposure to loss from its interests in unconsolidated structured entities it shall disclose that fact and the reasons.
  d. a comparison of the carrying amounts of the assets and liabilities of the entity that relate to its interests in unconsolidated structured entities and the entity's maximum exposure to loss from those entities. (IFRS 12.29)

Unconsolidated Structured Entities

- If during the reporting period an entity has, without having a contractual obligation to do so, provided financial or other support to an unconsolidated structured entity in which it previously had or currently has an interest (for example, purchasing assets of or instruments issued by the structured entity), the entity shall disclose:
  a. the type and amount of support provided, including situations in which the entity assisted the structured entity in obtaining financial support; and
  b. the reasons for providing the support. (IFRS 12.30)
- An entity shall disclose any current intentions to provide financial or other support to an unconsolidated structured entity, including intentions to assist the structured entity in obtaining financial support. (IFRS 12.31)

Accounting for Interests in Other Entities

(Workshop 3) 4 August 2014

LAM Chi Yuen Nelson 林智遠
nelson@nelsoncpa.com.hk
www.NelsonCPA.com.hk/training.htm
www.Facebook.com/NelsonCPA

LAM Chi Yuen Nelson 林智遠
nelson@nelsoncpa.com.hk
www.NelsonCPA.com.hk/training.htm
www.Facebook.com/NelsonCPA