

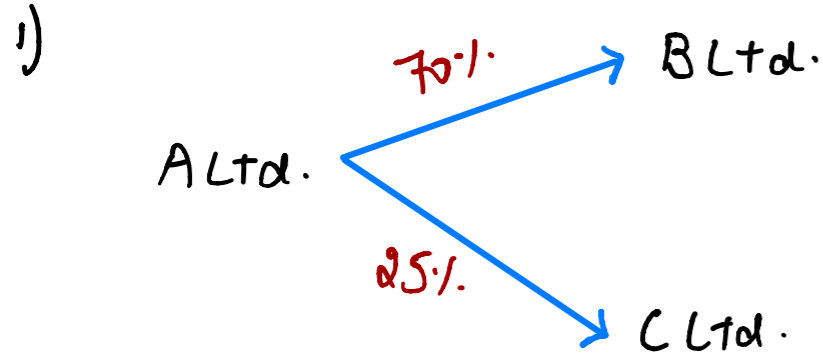
AS 23: Accounting for Investment in Associates in Consolidated Financial Statements

Meaning of Associate: Enterprise in which investor has significant influence* & which is neither subsidiary or joint venture of investor.

* Significant Influence: Power to participate in financial and/or operating policy decisions of investee. It may be gained by statute, agreement or share ownership.

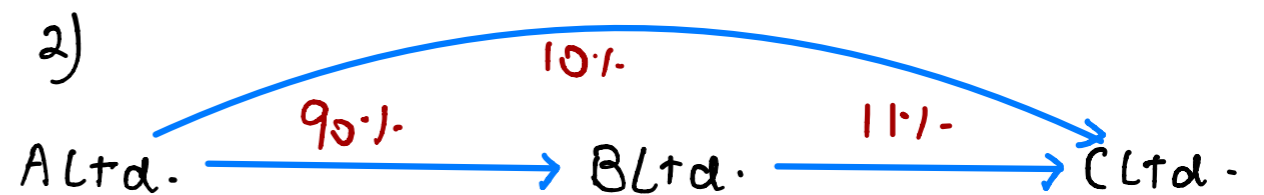
Assume 20% or more unless otherwise proved

Example



B Ltd. is subsidiary of A Ltd. (AS 21 Applicable)

C Ltd. is Associate of A Ltd. (AS 23 Applicable)



A Ltd. is holding co. of B Ltd.

A Ltd. has total of direct & indirect (10% + 11%) 21% in C Ltd., so C Ltd. is Associate of A Ltd.

For CFS, holding will be 19.9% (10% + 90% of 11%)

Accounting Treatment

Separate Financial Statements

Apply AS 13

Investment recorded at cost
- Pre Acquisition Dividend

xxx
(xxx)
xxx

Consolidated Financial Statements

Use Equity Method of Accounting (AS 23)

Equity Method of Accounting:

- 1) Investment recorded at cost $\begin{array}{r} xxx \\ - \text{Pre Acquisition Dividend} \\ \hline xxx \end{array}$
- 2) Calculate Goodwill / Capital Reserve (Identify / Disclose)
- 3) Add/Less: Share in Post Acquisition Profits / (Losses)
(Revaluation of Investments)
 $\begin{array}{l} \text{Investment in Associate A/c - Dr} \\ \text{To Consolidated P\&L A/c} \end{array} \quad \left(\begin{array}{l} \text{Post Profits} \\ \text{Share} \end{array} \right)$
- 4) Post Acquisition Dividend to be deducted

Presentation in CFS

Cost of Investment	xx	
- Pre Acq. Dividend	(xx)	xx
(incl. Goodwill / Capital Res. of ---)		↳ SFS value
+ Post Acquisition Profits Share	xx	
- Post Acquisition Dividend	(xx)	
Value in CFS	<u>xx</u>	

Cases where Equity Method is not followed

- a) Investment is acquired & held to dispose off in near future (Control is Temporary) OR
- b) Investee operates under long term restrictions which significantly restricts transfer of funds to investor.

Cases where Investor is required to discontinue Equity Method

- a) Ceases to have significant influence either wholly or partially OR
- b) Now associate operates under long term restrictions which significantly restricts transfer of funds to investor

Other Important Points

1) Can value of Investment in Associate in CFS be negative? → NO

If Post Acq. share of loss \geq Carrying Amount of Investment : Discontinue recording further loss & Investment reported at Nil value.

If Associate subsequently reports Profits, investor resumes including its profits share only after its profits share equals net losses share that have not been recognised.

2) Step Acquisition: If shares acquired in steps i.e. in parts, then calculate Goodwill / Capital Reserve for each part.

3) Treatment of Proposed Dividend: Compute investor share of results without taking into consideration the Proposed Dividend.

(If dividend declared after year end, consider effect in next year & not in current year)

4) Potential Equity shares of Investee held by Investor (Convertible Debentures, Convertible Preference shares)

These should not be taken into account for determining voting power of the investor.