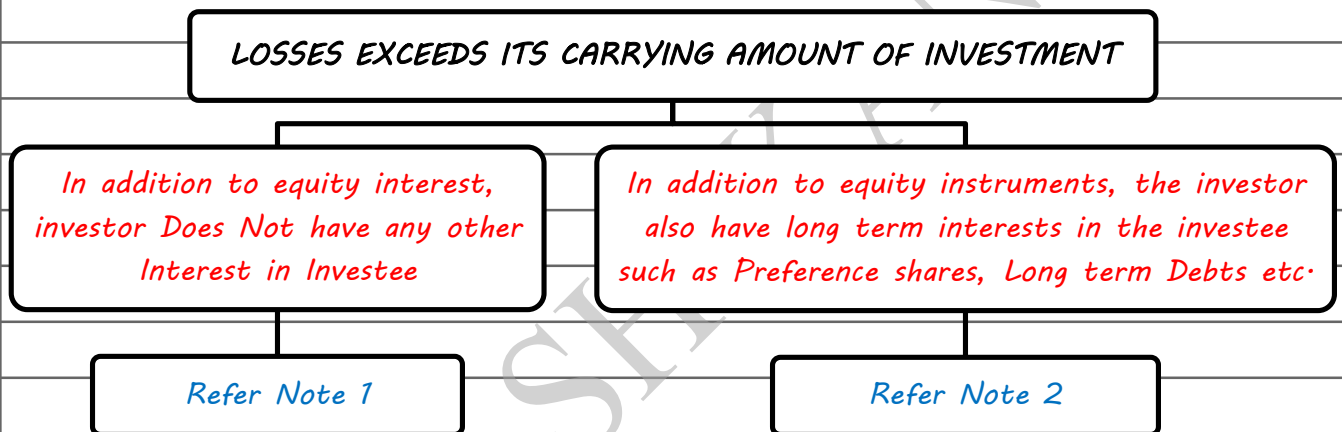


IND AS 28 INVESTMENT IN ASSOCIATES & JOINT VENTURES VENTURES

❖ LOSS MAKING ASSOCIATE OR JOINT VENTURE



NOTE 1:

- ☞ Investor discontinues recognising its share of further losses. After the carrying amount of investment becomes zero, investor recognises additional losses (a liability) only if there is a legal or constructive obligation on part of the investor to make payments on behalf of the associate or Joint Venture.
- ☞ Subsequent Share of Profits of the investee is recognised by the investor, only after those profits equals the share of losses Not recognised.

NOTE 2:

- ☞ In addition to equity instruments, the investor may also have long term interests in the investee such as Preference shares, Long term Debts, etc (These long term interests are not accounted for in accordance with Ind AS 28, instead they are governed by the principles of Ind AS 109)

☞ *Ind AS 28 states that the losses that exceed the entity's investment in ordinary shares are applied to other components of the entity's interest in the associate or joint venture in the reverse order of their superiority.*

☞ *In this context, the amendments to Ind AS 28 clarify that the accounting for losses allocated to long-term interests would involve the dual application of Ind AS 28 and Ind AS 109. The annual sequence in which both standards are to be applied can be explained in a 3 step process:*

a) Step 1: Apply Ind AS 109 independently

Apply Ind AS 109 (such as impairment, fair value adjustments etc.) ignoring any adjustments to carrying amount of long-term interests under Ind AS 28 (such as allocation of losses, impairment etc.)

b) Step 2: True-up past allocations

If necessary, prior years' Ind AS 28 loss allocation is trued up in the current year, because Ind AS 109 carrying value may have changed. This may involve recognizing more prior year's losses, reversing these losses or re-allocating them between different long-term interests.

c) Step 3: Book current year equity share

Any current year Ind AS 28 losses are allocated to the extent that the remaining long-term interest balance allows. Any current year Ind AS 28 profits reverse any unrecognized prior years' losses and then allocations are made against long-term interests.