



International Financial Reporting Standards



**IFRS for SMEs**  
IASC Foundation  
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The *IFRS for SMEs* 2

**Section 14 Investments in Associates**  
**Section 15 Investments in Joint Ventures**  
**Sec 16 Investment Property**  
**Michael Wells**  
**Day 2 16:00 to 17:00**



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**Section 14 Investments in Associates and Section 15 Investments in Joint Ventures** (jointly controlled entities)



Sections 14 & 15 – scope 4

**Sections 14 & 15**


- specify accounting & reporting for investments in associates and investments in joint ventures respectively
- in primary financial statements (ie consolidated financial statements & the financial statements of an investor that is not a parent but that has an investment in one or more associates or joint ventures).



**Section 14 – associate** 5

**An associate is an entity over which the investor has *significant influence* & is neither a subsidiary nor a joint venture**


- **Significant influence** is the power to participate in the financial and operating policy decisions of the associate but it is not control or joint control over these policies



**Section 14 – significant influence** *continued* 6

**Determining if significant (SI) influence exists requires judgement**

- SI presumed if investor holds, directly or indirectly,  $\geq 20\%$  of voting power of associate, unless clearly demonstrate this is not the case
- conversely, if the investor holds  $\leq 20\%$ ...
- a majority ownership by another investor does not preclude an investor from having SI



## Section 14 – significant influence continued

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- **Determining if SI exists requires judgement. This means considering all factors, eg**
  - potential voting rights
  - representation on the board of directors or equivalent governing body
  - participation in policy-making processes, including participation in decisions about dividends or other distributions
  - material transactions between the investor and the investee
  - providing essential technical information
  - interchange of managerial personnel



## Section 15 – joint venture

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- **A joint venture (JV) is a contractual arrangement whereby 2 or more parties undertake an economic activity that is subject to joint control**
- **JVs may take different forms and structures, however, they all share the following characteristics:**
  - a contractual arrangement exists between the parties involved in the venture; and
  - contractual arrangement establishes joint control.



## Section 15 – joint control

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- **Joint control is the contractually agreed sharing of control over an economic activity**
  - exists only when the strategic financial & operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).
- **Control is power to govern the financial & operating policy decisions of an entity (see Section 9).**



## Sections 9, 11, 14 & 15 – relationships

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- **Summary (in descending order of influence of the relationship between investors and their investees):**
  - a parent controls its subsidiary (Sec 9)
  - 2 or more ventures jointly control a joint venture (Sec 15)
  - an investor has significant influence over an associate (Sec 14)
  - an investor has less than significant influence over an investment (eg Sec 11)



## Sections 14 & 15 – examples

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### **In the absence of evidence to the contrary – scope of S14, S15 or another?**

- **Ex 1\***: A owns 75% of B.
- **Ex 3\***: A owns 25% of C.
- **Ex 1#** D, E, F, G & H (5 unrelated entities) each own 20% of Z. Strategic decisions in Z require approval by investors holding a simple majority (ie > 50%) of the voting power.

\* see example with the same number in Module 14 of the IASCF training material  
# see example 1 in Module 15 of the IASCF training material



## Sections 14 & 15 – examples continued

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### **In the absence of evidence to the contrary – in scope of S14, S15 or another?**

- **Ex 2\***: same as Ex 1\*, except D, E & F have contractually agreed to jointly control Z.
- **Ex 3\***: I & J (2 unrelated entities) each own 50% of Y. Strategic decisions in Y require approval by investors holding a simple majority (ie > 50%) of the voting power.

\* see example with the same number in Module 15 of the IASCF training material



## Sections 14 & 15 – examples continued

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**In the absence of evidence to the contrary – in scope of S14, S15 or another?**

- **Ex 5\*:** K & L own 75% & 25% respectively of X. The contractual arrangements are such that strategic decisions in X require the unanimous consent of entities K & L.

\* see example 5 in Module 15 of the IASCF training material



## Sections 14 & 15 – measurement

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- **An investor/venturer accounts for all of its investments in associates/jointly controlled entities using 1 of:**
  - the cost model (but if published price quotation then use fair value model)
  - the equity method
  - the fair value model (but use cost model if impracticable to measure fair value reliably without undue cost or effort)

**Same model need not be used for Ass & JVs**



## Sections 14 & 15 – cost model

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- **An investor/venturer measures investment in Ass/JCE at cost less any accumulated impairment losses**
  - impairment recognised in accordance with Section 27 *Impairment of Assets*
  - recognise distributions received as income without regard to whether the distributions are from accumulated profits of the associate arising before or after the date of acquisition
- **Use fair value model for investments with published price quotation**



## Secs 14 & 15 – examples cost model

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- **Ex 12\*:** On 1/3/20X1 A buys 30% of B for 300,000.  
B's profit = 80,000 for the year ended 31/12/20X1. On 31/12/20X1 B declared a dividend of 100,000.  
At 31/12/20X1 the recoverable amount of A's investment in B = 290,000 (ie fair value 293,000 less costs to sell 3,000).  
No published price quotation for B.

\* see example 12 in Module 14 of the IASCF training material



## Secs 14 & 15 – examples cost model

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- **Ex 12 adapted:** Same as Ex 12, except there is a published price quotation for B.



## Sections 14 & 15 – fair value model

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- **Initial recognition: investor/venturer measures investment in Ass/JCE at the transaction price**
  - transaction price excludes transaction costs
- **Thereafter (at each reporting date) measure investment at its fair value**
  - use guidance in para's 11.27–11.32
  - change in fair value recognised in profit or loss
- **Use cost model for any investment if impracticable to measure fair value reliably without undue cost or effort**



## Secs 14&15 – examples fair value model

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- **Ex 28\***: On 1/3/20X1 A buys 30% of B for 300,000.

B's profit = 80,000 for the year ended 31/12/20X1. On 31/12/20X1 B declared a dividend of 100,000.

At 31/12/20X1 the recoverable amount of A's investment in B = 290,000 (ie fair value 293,000 less costs to sell 3,000).

No published price quotation for B.

- **Ex 28 adapted**: Same as Ex 28, except cannot determine fair value without...

\* see example 28 in Module 14 of the IASCF training material



## Sections 14 & 15 – equity method

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- **Basic model**

- initial recognition of an equity investment: investor/venturer measures investment in Ass/JCE at the transaction price (including transaction costs)
- subsequently adjust to reflect :
  - share of the profit or loss & OCI of the Ass/JCE
  - distributions received from the Ass/JCE



## Secs 14&15 – example equity method

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- **Ex 18\***: On 1/3/20X1 A buys 30% of B for 300,000 (assume no implicit goodwill & fair value adjustments).

B's profit = 80,000 for the year ended 31/12/20X1 (including 66,667 from March to Dec). On 31/12/20X1 B declared a dividend of 100,000.

At 31/12/20X1 the recoverable amount of A's investment in B = 290,000 (ie fair value 293,000 less costs to sell 3,000).

No published price quotation for B.

\* see example 18 in Module 14 of the IASCF training material



## Sections 14 & 15 – equity method continued

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- **Some other issues**

- potential voting rights
- implicit goodwill & fair value adjustments
- investor's/venturer's transactions with Ass/JCE
- date of Ass's/JCE's financial statements
- Ass's/JCE's accounting policies
- losses in excess of investment



## Sections 14 & 15 – equity method continued

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- **Stop** using equity method when SI ceases.
  - if Ass/JV **becomes Sub** (or Ass becomes JV): remeasure its previously held equity interest to fair value & recognise gain or loss on remeasurement in profit or loss
  - if **disposal**, derecognise Ass/JCE & recognise in profit or loss the difference between (i) proceeds + fair value of retained interest & (ii) CA when SI/JC lost.
  - **without disposal** regard CA at that date as a new cost & under Sections 11 & 12



## Sections 14 & 15 – disclosures

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- **Disclose separately for Ass & JVs** (irrespective of measurement model used)
  - accounting policy for investments
  - carrying amount of investments
- For JVs the aggregate amount of venturer's commitments relating to JVs, including its share in the capital commitments that have been incurred jointly with other venturers, as well as its share of the capital commitments of the JVs themselves



- **If equity method used disclose**
  - fair value of investments in Ass & JCEs respectively accounted for using the equity method for which there are published price quotations
  - share of the profit or loss & OCI of Ass & JCEs respectively & share of any discontinued operations



- **If cost model used disclose**
  - the amount of dividends and other distributions recognised as income



- **If fair value model**
  - make the disclosures required by paragraphs 11.41–11.44.



**Section 15 Investment in Joint Ventures  
(jointly controlled assets & jointly controlled operations)**



- **A JCOs is a JVs that**
  - involves the use of the resources of the venturers (rather than the establishment of a separate financial structure)
  - each venturer uses its own PP&E, carries its own inventories, incurs its own expenses & liabilities & raises its own finance, which represent its own obligations
  - The JV activities may be carried out by the venturer's employees alongside the venturer's similar activities.
  - The JV agreement usually specifies how revenue from joint product & any expenses incurred in common are shared.



- **A venturer recognises**
  - the assets that it controls & the liabilities that it incurs
  - the expenses that it incurs & its share of the income that it earns from the sale of goods or services by the joint venture



## Section 15 – example JCO

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- **Ex 8\***: A & B successfully tendered jointly for a government contract to construct a motorway in return for 14 million.

Contractual arrangement between A & B:

- each used their own equipment and employees in the construction activity
- A constructs 3 bridges at a cost of 4 million
- B constructs all of the other elements of the motorway at a cost of 6 million.
- A & B share equally in the 14 million billed & received jointly to the government.

\* see example 8 in Module 15 of the IASCF training material



## Section 15 – jointly controlled assets

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- JCAs are joint ventures that involve the joint control, & often the joint ownership, by the venturers of one or more assets contributed to, or acquired for the purpose of, the joint venture and dedicated to the purposes of the joint venture.



## Section 15 – accounting for JCAs

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- **A venturer recognises**
  - its share of the jointly controlled asset (JCA)
  - any liabilities that it has incurred
  - its share of any liabilities incurred jointly with the other venturers
  - any income from the sale or use of its share of the output of the JV, together with its share of expenses incurred by the JV
  - any expenses that it has incurred in respect of its interest in the JV.



## Section 15 – example JCA

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- **Ex 9\***: A & B (independent oil producers) enter into a contractual arrangement to jointly control and operate an oil pipeline. Each venturer uses the pipeline to transport its own product in return for which it bears an agreed proportion of the expense of operating the pipeline.

\* see example 9 in Module 15 of the IASCF training material



## The IFRS for SMEs

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### Section 16

#### **Investment Property**

(excluding investment property whose fair value cannot be measured reliably on an ongoing basis)



## Section 16 – investment property

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**Investment property (IP) is land or a building (or part of a building, or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both.**



## Section 16 – scope

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### Section 16 specifies accounting & reporting for:

- IP whose fair value can be measured reliably without undue cost or effort on an ongoing basis; and
- specified property interests held under operating lease that an entity chooses to account for as IP.

Section 17 *PP&E* specifies accounting & reporting for IP whose fair value cannot be measured reliably without undue cost or effort on an ongoing basis.



## Section 16 – scope continued

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**A property interest that is held by a lessee under an operating lease may be classified & accounted for as IP using Section 16 if, and only if;**

- it otherwise meets the definition of IP; &
- the lessee can measure the fair value of the property interest without undue cost or effort on an ongoing basis.

This classification alternative is available on a property-by-property basis.



## Section 16 – example property interest

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### **Ex 10\*:** Can A account for its leasehold interest as IP at fair value?

A (as the lessee) rents a building under an operating lease. A (as the lessor) subleases the building under operating leases to others.

A profits from its leasehold interest in the building by charging higher rent to its tenants than it is charged by its landlord.

\* see example 10 in Module 16 of the IASCF training material



## Section 16 – initial measurement

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- **Initial measurement of IP = cost**
  - cost = purchase price + directly attributable expenditure, eg legal & brokerage fees, property transfer taxes & other transaction costs
  - if payment deferred beyond normal credit terms, cost = PV of future payments
  - if self-constructed use paras 17.10–17.14



## Section 16 – initial measurement continued

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- Initial cost of a property interest held under a lease and classified as an IP is:
  - the lower of the fair value of the property interest; &
  - the present value of the minimum lease payments.
- An equivalent amount is recognised as a liability
  - ie the property interest is initially recognised & measured as a finance lease in accordance with paragraph 20.9



## Section 16 – example property interest

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**Ex 17\*:** A (as lessee) rents a building under operating lease. A (as lessor) subleases the building under operating leases to its tenants.

It classifies and accounts for its interest in the leasehold building as IP at fair value.

When the interest in the property was first recognised, the lower of the fair value of the property interest and the present value of the minimum lease payments is CU10,000.

\* see example 17 in Module 16 of the IASCF training material



### Section 16 – subsequent measurement

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- **Each reporting date measure IP at fair value**
  - with changes in fair value recognised in profit or loss
  - if a property interest held under a lease is classified as IP, the property interest (not the underlying property) is accounted for at fair value.
- Paragraphs 11.27–11.32 provide guidance on determining fair value.



### Section 16 – transfers

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- If a reliable measure of fair value is no longer available (without undue cost or effort) for an IP measured at fair value:
  - thereafter account for that item as PP&E in accordance with Section 17 until a reliable measure of fair value becomes available;
  - the CA of the IP on that date becomes its cost under Section 17;
  - disclose transfer (a change of circumstance, not a change in accounting policy).



### Section 16 – example transfer

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#### Ex 23\*:

On 1/1/20X1 acquired an IP for 1,000.

To 31/12/20X2 measured at fair value (FV).

At 31/12/20X1 FV = 1,050 & at 31/12/20X2 = 1,200.

By 31/12/20X3 could no longer measure reliably FV. Estimate recoverable amount as 700.

\* adapted from example 23 in Module 16 of the IASCF training material



### Section 16 – disclosures

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- **Disclose for all IP accounted for at FV:**
  - methods & significant assumptions in FV.
  - extent to which FV is based on a valuation by independent valuer (recognised & relevant professional qualification & recent experience in the location & class of the IP. If there has been no such valuation, disclose that fact.
  - the existence & amounts of restrictions on realisability of IP or the remittance of income & disposal proceeds.
  - contractual obligations to purchase, construct or develop IP or for repairs, maintenance or enhancements.



### Section 16 – disclose reconciliation

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- Reconciliation between the CA of IP at start & end of the period, showing separately:
  - additions (disclosing separately acquisitions through business combinations)
  - net gains or losses from fair value adjustments
  - transfers to PP&E when a reliable measure of FV is no longer available
  - transfers to & from inventories & owner-occupied property (PP&E)
  - other changes

**Need not present recon for prior periods**



### Section 16 – other disclosures

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- **In accordance with Section 20**
  - the owner of IP provides lessors' disclosures.
  - if holds IP under a finance lease or operating lease provides lessees' disclosures for finance leases & lessors' disclosures for any operating leases into which it has entered.



## Questions or comments?

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