

Investment in Associates

Chartered Accountancy Corporate Level Financial Reporting and Governance (FRG)


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ACA, B.Sc. (Accounting) Sp. Hons., ACMA (SL), SAT, CIMA Passed Finalist,
Reading for MBA (PIM), CA and CIMA Prize Winner



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INVESTMENT IN ASSOCIATES I LKAS 28

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B.Sc. (Acct.) Hons. Gold medal winner, ACA, SAT, ACMA (SL), CIMA Passed Finalist, CA Prize winner for AFR subject and CAB II First in Order of Merit, CIMA Strategic Level Aggregate Prize winner, Reading for MBA (PIM - USIP).

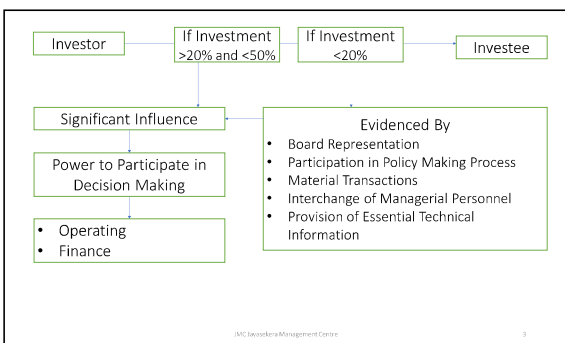
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If Investor has **Significant Influence** over Investee, that is called an **Associate Investment**

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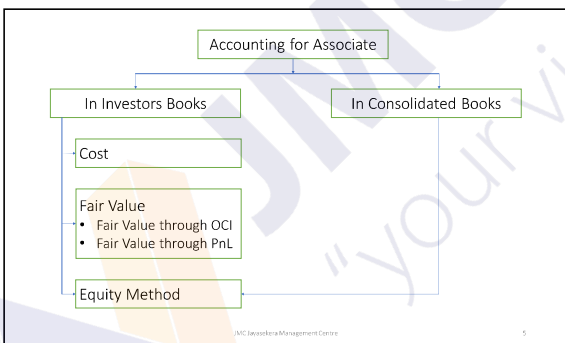
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Accounting for Associate Investments

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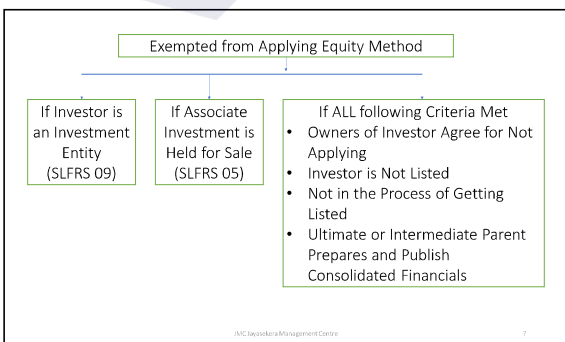


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Exceptions to Apply Equity Method

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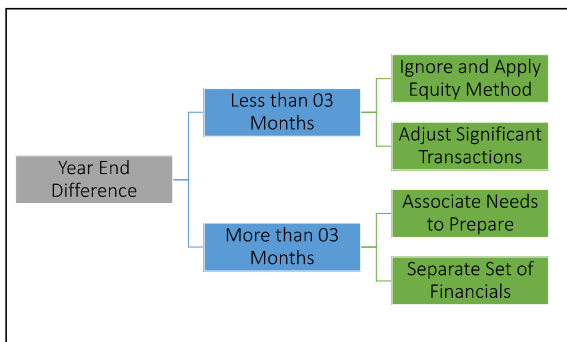
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What if Associate Year End is Different to Investor's Year End?

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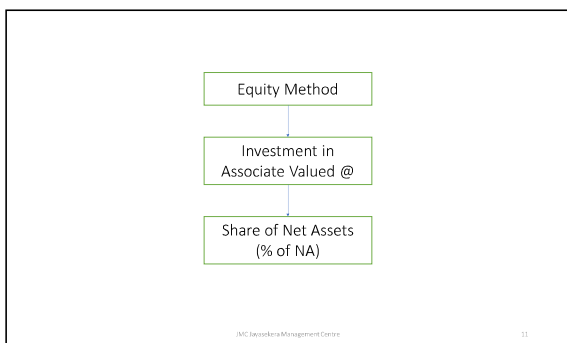


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Equity Method

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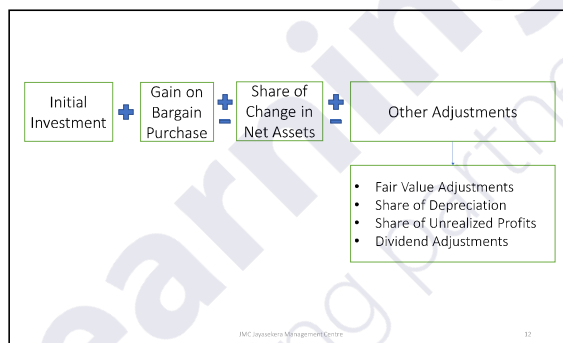
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Question 23
 P invested Rs.100,000/- in 25% of equity shares of A on 01 April 2020. As at the date of Investment A had book value of net assets to the value of Rs.320,000/-. There were no fair value adjustments.
 1. Calculate the Goodwill on Investment in Associate
 2. Explain the Accounting Treatment

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Question 24
 P invested Rs.60,000/- in 25% of equity shares of A on 01 April 2020. As at the date of Investment A had a book value of net assets to the value of Rs.320,000/-. There were no fair value adjustments.
 1. Calculate the Gain on Bargain Purchase on Investment in Associate
 2. Explain the Accounting Treatment

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Question 25
 P invested Rs.100,000/- in 25% of equity shares of A on 01 April 2020. As at the date of Investment A had a book value of net assets to the value of Rs.300,000/- and Fair value gain on Property plant and equipment is Rs.20,000/-
 1. Calculate the Goodwill on Investment in Associate
 2. Explain the Accounting Treatment for Fair Value Gain
 3. The particular property plant and equipment item is subject to depreciation of 20% per annum. Calculate the Depreciation for the year ended 31/3/2021
 4. Explain the Accounting Treatment for Depreciation

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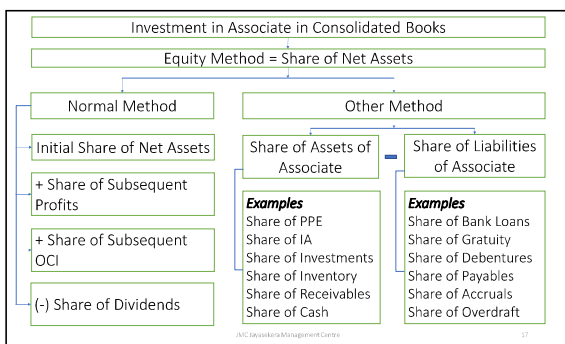
Understanding EQUITY Method (Share of Net Assets)

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Associate's Share of Profits and Share of OCI will be transferred to Console Reserves

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Question 26
A Plc bought 40,000 ordinary shares on 01/04/2019 in B Plc at a cost of Rs 38,000 when the statement of financial position of B Plc was as follows.

	Rs.	Rs.
Non-Current Assets		
Intangible Assets	30,000	
Tangible Assets	120,000	150,000
Current Assets		40,000
Total Assets		190,000
Equity		
Stated Capital (Rs.1/- per share)	100,000	
Retained Earnings	40,000	140,000
Non-Current Liabilities		30,000
Current Liabilities		20,000
Total Equity and Liabilities		190,000

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Question 26
During the year to 31 March 2020 B Plc made a profit before tax of Rs. 82,000 and the taxation charge on the year's profits was Rs 32,000. A dividend of Rs 20,000 was paid on 31 March 2020 out of these profits.

Calculate the entries for the associated company which would appear in the consolidated accounts of the A Plc, in accordance with the requirements of LKAS 28.

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Question 27
On 01 January 2019, the net tangible assets of A Ltd amount to Rs 2,400,000 financed by 1,000,000 Rs 1 ordinary shares and revenue reserves of Rs. 1,400,000. H Ltd, a company with subsidiaries, acquires 300,000 of the shares in A Ltd for Rs 1,000,000. During the year ended 31 December 2019 A Ltd's profit after tax is Rs. 500,000, from which preference dividends of Rs. 280,000 are applicable to cumulative preference shares. H has not made any investments in preference shares of A.

Show how H Ltd's investment in A Ltd would appear in the consolidated statement of financial position at 31 December 2019.

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Goodwill and Gain on Bargain Purchase on Associate

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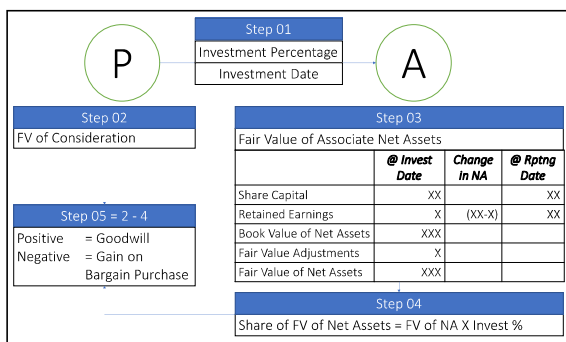
Goodwill on Associate Investment will be Implicitly included in Investment in Associate. However, the Gain on Bargain Purchase shall be Recognized.

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Calculation

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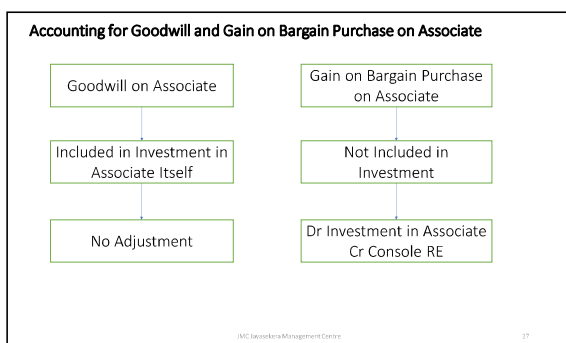
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Accounting for Goodwill and Gain on Bargain Purchase on Associate

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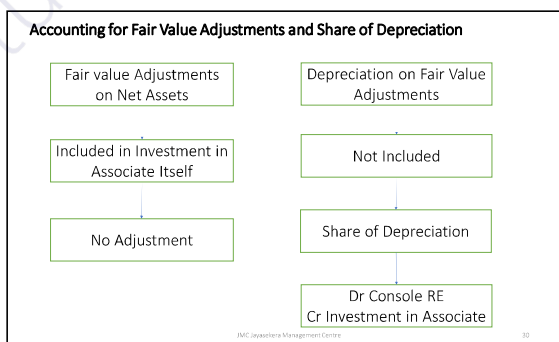
Investment Day Fair Value Adjustments on Associate's Net Assets

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Share of Investment day Fair Value Adjustments will be Implicitly included in Investment in Associate. However, the Subsequent Share of Depreciation shall be Recognized.

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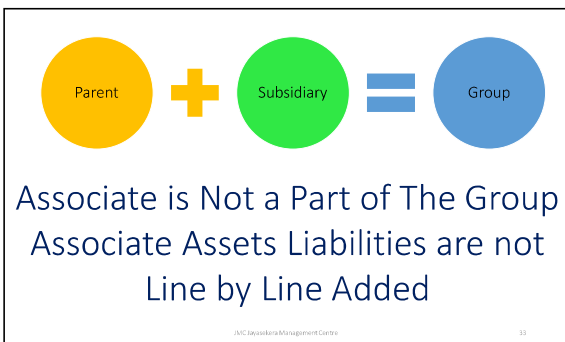
Other Adjustments for Associate

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Intercompany Balances between Associate and Group

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Intercompany Balances between Group and Associate **SHALL NOT** be **ELIMINATED**

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Share of Unrealized Profits in Inventory

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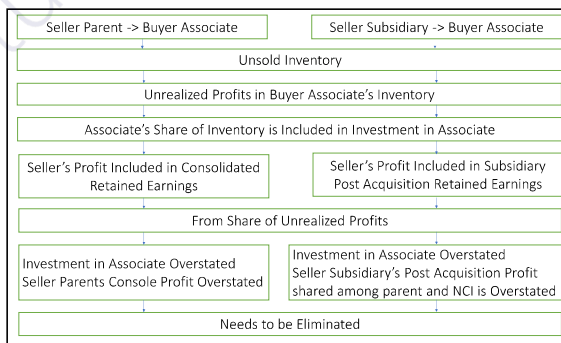
Share of Unrealized Profits on Inventory will Overstate Seller's Profits and Buyer's Inventory. That shall be Eliminated.

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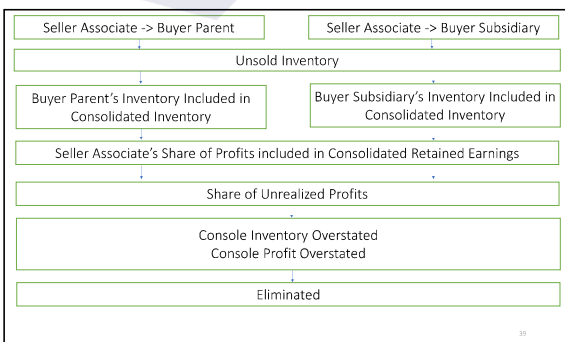
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Why We Should Eliminate Share of Unrealized Profits in Inventory?

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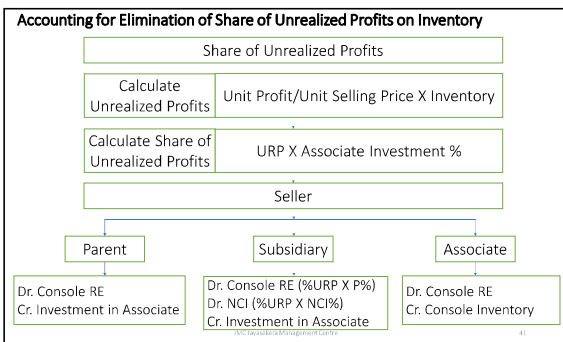
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How to Eliminate Share of Unrealized Profits in Inventory?

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Question 28

P owns 40% of the equity shares of A. During the year P has sold Rs. 3,000,000 of goods to A at a markup on cost of 20%. At the reporting date 80% of these items remain in A's inventory.

Determine the accounting entries relating to share of unrealized Profit
Determine the accounting entries relating to share of unrealized Profit if A has sold goods to P

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Share of Unrealized Profits on Property Plant and Equipment

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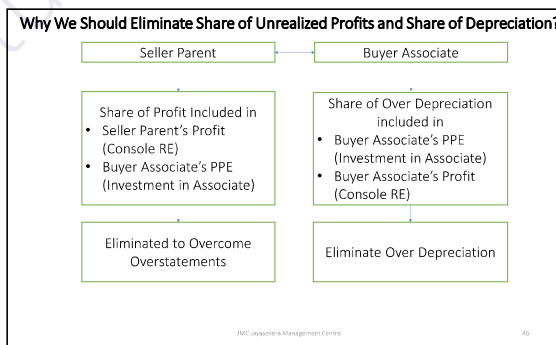
Share of Unrealized Profits on PPE will Overstate Seller's Profit and Buyer's PPE. Buyer will Recognize Share of Excess Depreciation on such Unrealized Profits. Both Share of Unrealized Profits and Share of Depreciation Shall be Eliminated.

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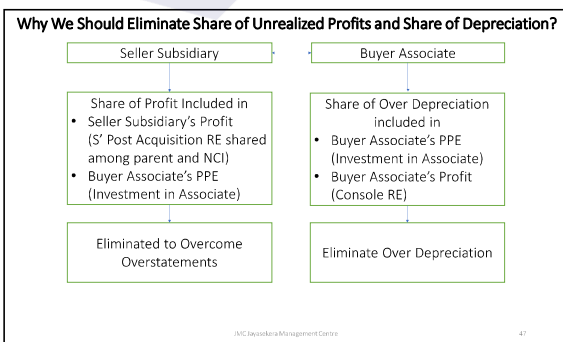
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Why We Should Eliminate Share of Unrealized Profits in PPE?

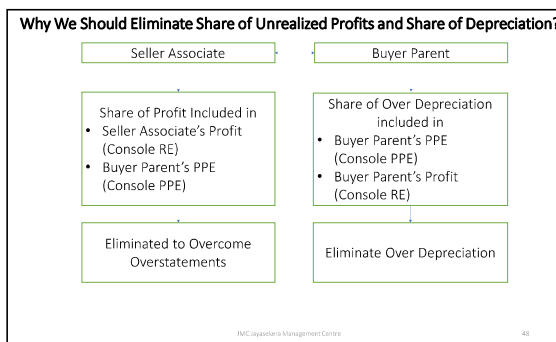
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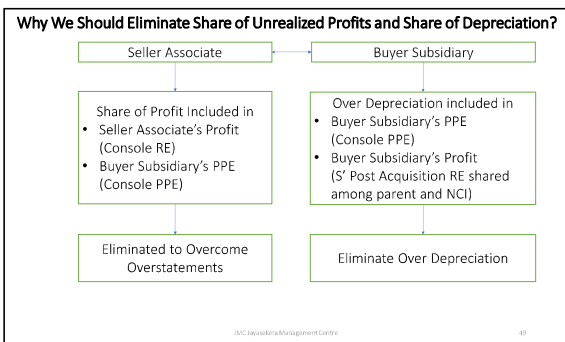


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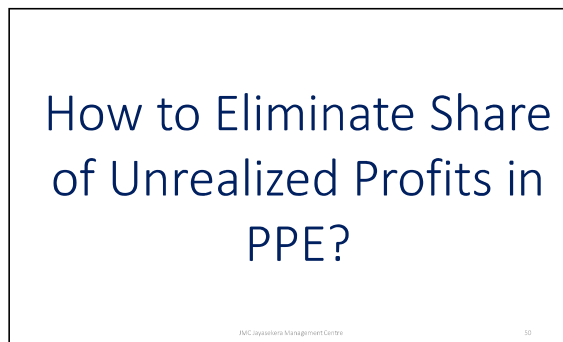


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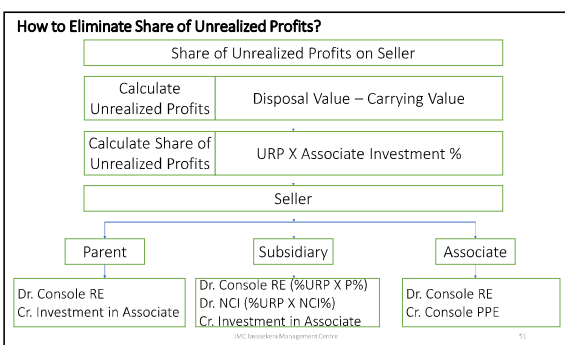
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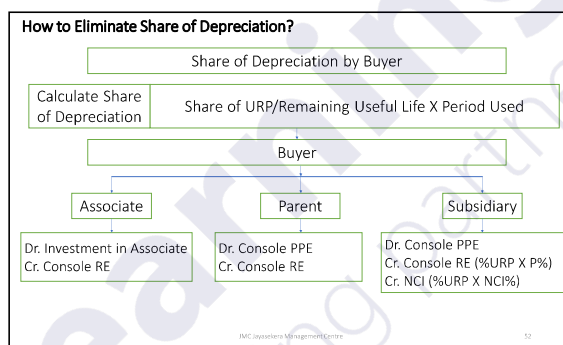
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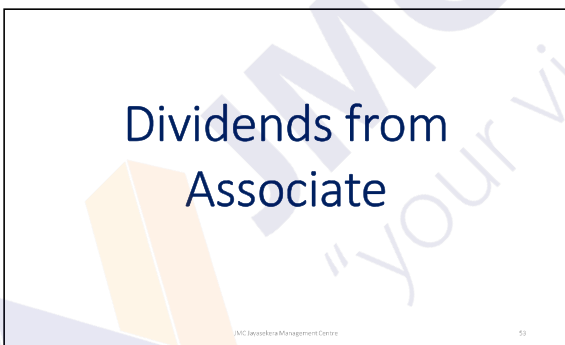


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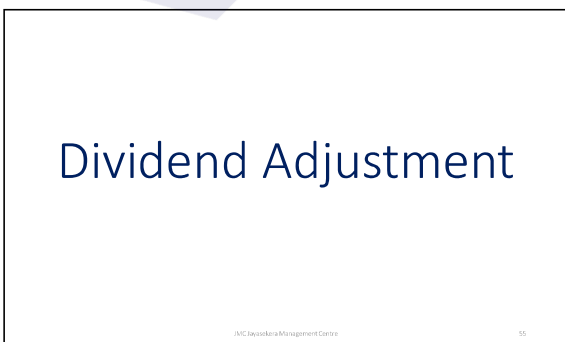
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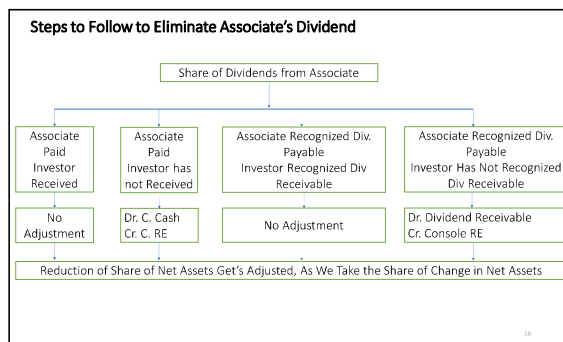
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Associate's Dividends Reduces the Net Assets, Thus it'll Reduce the Value of Investment In Associate. If Investor has recognized the Share of Dividends as Other Income such shall be Adjusted to Investment in Associate.

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Question 29

Below are the statements of financial position of three entities as at 31 December 2019.

	Tom Rs.000	James Rs.000	Emily Rs.000
Non-current assets			
Property, plant & equipment	959	980	840
Investments: 630,000 shares in James	805	-	-
168,000 shares in Emily	224	-	-
	1,988	980	840
Current assets			
Inventory	380	640	190
Receivables	190	310	100
Cash and cash equivalents	35	58	46
Total assets	2,593	1,988	1,176

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Question 29

	Tom Rs.000	James Rs.000	Emily Rs.000
Equity			
Share capital (Rs 1 shares)	1,120	840	560
Retained earnings	1,232	602	448
	2,352	1,442	1,008
Current liabilities			
Trade payables	150	480	86
Dividend Payable	-	-	50
Taxation	91	66	32
Total Equity & Liabilities	2,593	1,988	1,176

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Question 29

- (1) Tom acquired its shares in James on 1 January 2019 when James had retained earnings of Rs 160,000. NCI's are to be valued at their fair value at the date of acquisition. The fair value of the NCI holding in James at 1 January 2019 was Rs 250,000.
 - (2) Tom acquired its shares in Emily on 1 January 2019 when Emily had retained earnings of Rs 140,000. There's a fair value excess of Rs.100,000/- relevant to PPE which had a remaining useful of 05 years.
 - (3) An impairment test at the year-end shows that the goodwill for James remains unimpaired but that the investment in Emily is impaired by Rs 2,000.
 - (4) During the year Emily sold Rs.100,000/- worth of goods to Tom of which 50% remain at Tom's inventory. Emily keeps 20% profit margin.
 - (5) During the year James sold Rs.200,000/- worth of goods to Emily of which 60% was sold to outsiders. James keeps 25% profit markup.
 - (6) On 1/7/2019 Tom sold a motor vehicle to Emily for Rs.500,000/-. The motor vehicle had a carrying value of Rs.400,000 and a remaining useful life of 4 years.
 - (7) On 1/10/2019 Emily sold an Equipment to Tom for Rs.400,000/-. It had a carrying value of Rs.600,000 and a remaining useful life of 5 years.
 - (8) Emily has a declared a dividend of Rs.50,000/- on 31 December 2019. Tom has not accounted for its share of dividend.
- Prepare the consolidated statement of financial position for the year ended 31 December 2019.

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