

As per SLFRS 10, To determine whether it controls an investee an investor shall assess whether it has all the following:

- (a) power over the investee.
- (b) exposure, or rights, to variable returns from its involvement with the investee; and
- (c) the ability to use its power over the investee to affect the amount of the investor's returns.

However, for an investor that holds more than half of the voting rights of an investee, to have power over an investee, the investor's voting rights must be substantive, in accordance with paragraphs B22–B25, and must provide the investor with the current ability to direct the relevant activities, which often will be through determining operating and financing policies. **If another entity has existing rights that provide that entity with the right to direct the relevant activities and that entity is not an agent of the investor, the investor does not have power over the investee.**

In the given scenario, CAPL not possesses the power over the new company established even CAPL holds 60% of the shares, because

- i. Lee is responsible for major operating and capital decisions of the new entity due to the specialist knowledge it possesses. Therefore, Lee can appoint or approve the majority of key management personnel of the new entity.
- ii. CAPL can only appoint one director to the board enabling participation in policy making decisions

Therefore, CAPL shall recognize this investment as an investment in an associate since CAPL has only significant influence over the new entity by appointing one member to the board to participate policy making decisions and apply equity method of accounting as per LKAS 28.

The initial investment shall recognize as follows as per the equity method accounting, LKAS 28,

	LKR Mn
Cash payment 330 x50%	165
Deferred consideration 120(1.13) ^1	106
Contingent Consideration 50/ (1.13) ^2	<u>39</u>
Initial recognition at cost	<u>310</u>