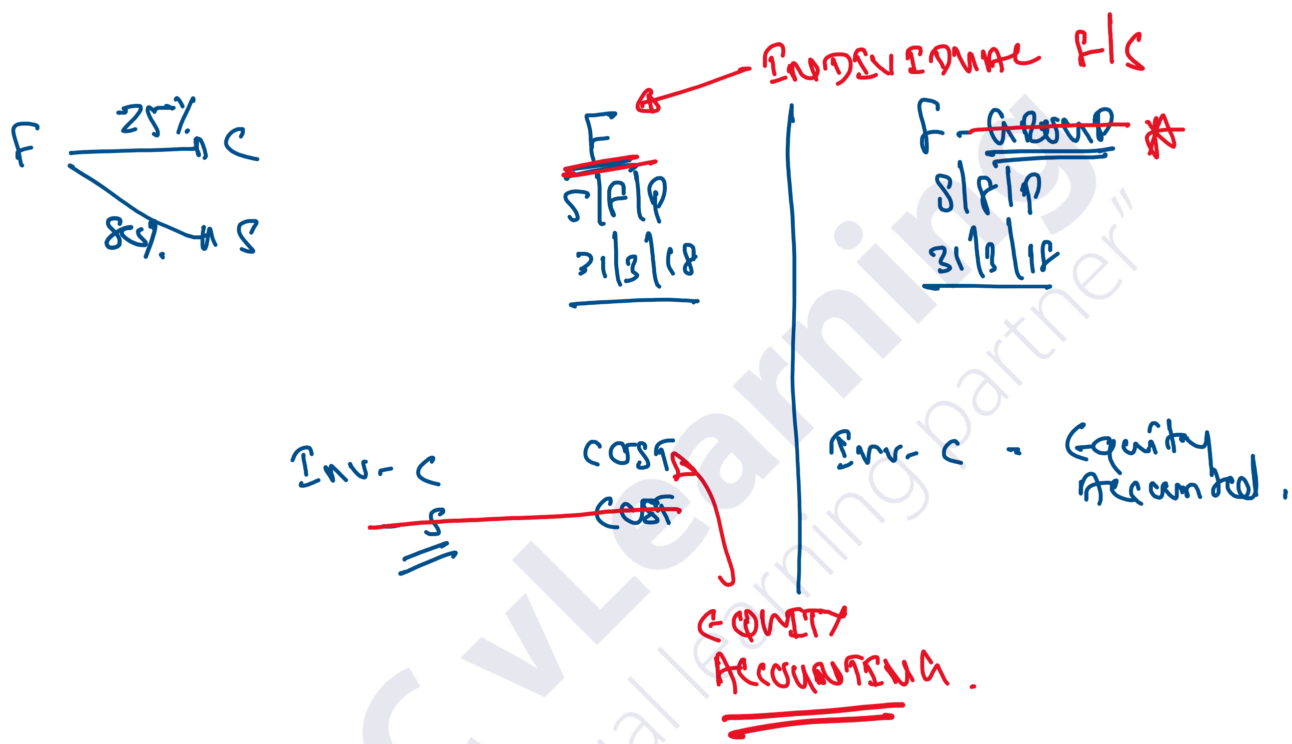
December 2018 Q1 (a)

As per LKAS 28, when significant influence exist over an investment made, the investor is required to follow equity accounting. When the Investor doesn't have subsidiaries it should follow equity accounting for its investment in associate in its individual financial statements.



In following equity accounting, the investor is required to initially measure the investment at cost and on the acquisition date calculate the goodwill or gain on bargain purchase by comparing the investment amount with the proportion of net assets acquired. When there's a goodwill no separate adjustment is required, however, when there's a gain on a bargain purchase it should be accounted as a profit in that period by adding it to the investment value.

Subsequently, the share of changes in net assets of the associated should be added to the investment value and any dividends received will be deducted from the investment value.

In this case, since Food (pvt) ltd (FPL) doesn't have any subsidiaries, it should follow equity accounting in the financial statements it prepares. In following equity accounting, FPL should account for its share of losses over the years. This will result in Rs.3.5mn, Rs. 4.675mn, Rs. 4.825mn losses being recognized over the years ending 31st March 2016, 2017 and 2018 respectively. In the year ending 31st March 2018, even-though the loss share is Rs.6.125mn since loss exceeds the carrying amount, FPL should cease recognizing further losses. The unrecognized losses should be disclosed in the financial statements.

Subsequently, if the Investee starts making profits, FPL should recognize such profits only after the unrecognized losses are recouped.

If the investor has made a commitment to lenders that it will contribute additional capital if the entity makes losses, then to the extent such commitment FPL should recognize a liability in its financial statements.

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