IAS 28
Investments in associates and joint ventures

1. Objective

This Standard prescribes the accounting for investments in associates and the requirements for applying the equity method in consolidated financial statements. This Standard must be applied by all entities that are investors with joint control of, or significant influence over, an investee.

2. Scope

A company is considered to be an **"associate"** when the investor has significant influence over it, but without this giving the investor a position of control or joint control.

There is **significant influence** when the investor has the power to participate regularly in the entity's financial and operating policy decisions, without being in a position of either exclusive or joint control.
Significant influence is presumed , unless it can be clearly demonstrated otherwise, when the investor holds, directly or indirectly, more than 20% of the voting rights in the investee, notwithstanding the presence of a majority shareholder or the existence of other investors with significant influence.
Most often, significant influence is evidenced when the investor:

- is represented within the investee's board of directors or equivalent governing body;
- participates in decisions made by the board of directors or governing body, including the decisions about dividends;
- develops significant economic or financial relations with the investee;
- provides essential technical information.

A **joint venture** is a joint arrangement (see IFRS 11; p. 159) whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.
A **joint venturer** is a party to a joint venture in which it has joint control. **An investor in a joint venture** (not being a joint venture) is a participant in a joint venture in which it does not have joint control.

3. Accounting impact

In the consolidated financial statements of the investor, the cost of the investment in the associate or the joint venture is **accounted for using the equity method** for the shares carried on the balance sheet of the investee. Under this method, the initial cost of investment is subsequently increased or decreased to recognize the investor's share of profit or loss of the investee after the date of acquisition of the investment.

Exemple 1 : Company X holds 20% of the shares of company Y, but does not have exclusive or joint control.
Y's shares were acquired by X for 200, when Y's equity amounted to 1,000.

Balance sheet of investor X			
ASSETS	**31/12/N**	**LIABILITIES**	**31/12/N**
Intangible fixed assets	323	Share capital	4,000
Tangible assets	5,887	Reserves at 1/1/N	1,702
20% equity investment in Y at cost	200	Net profit for year N	987
Inventories	2,457	Provisions	324
Trade receivables	5,648	Non-current liabilities	859
Other receivables	1,253	Trade payables	6,299
Cash and cash equivalents	859	Other payables	2,456
TOTAL	16,627	TOTAL	16,627
Balance sheet of investee Y			
ASSETS	**31/12/N**	**LIABILITIES**	**31/12/N**
Intangible fixed assets	205	Share capital	1,000
Tangible assets	1,450	Reserves at 1/1/N	1,080
Inventories	823	Net profit for year N	246
Trade receivables	1,745	Provisions	36
Other receivables	234	Non-current liabilities	321
Cash and cash equivalents	539	Trade payables	857
		Other payables	1,456
TOTAL	4,996	TOTAL	4,996

Consolidated statement of financial position for X with investee Y accounted for by the equity method			
ASSETS	**31/12/N**	**LIABILITIES**	**31/12/N**
Intangible fixed assets	323	Share capital	4,000
Tangible assets	5,887	Reserves at 1/1/N	1,918
20% equity interest in Y - equity method	465	Net profit for year N	1,036
Inventories	2,457	Provisions	324
Trade receivables	5,648	Non-current liabilities	859
Other receivables	1,253	Trade payables	6,299
Cash and cash equivalents	859	Other payables	2,456
TOTAL	16,892	TOTAL	16,892

The item "shares accounted for by the equity method" represents 20% of the equity of investee Y.
20% of Y's reserves are added to X's reserves and the same reasoning is applied to profit.

In the consolidated profit and loss statement, the share of the profit generated by investee Y is recorded in the amount of 49 (20% of 246) on a specific line ("income for companies accounted for by the equity method").
The other items in X's balance sheet and statement of financial position remain unchanged.

To be able to apply the equity method, the investor must use the associate or joint venture's most recent financial statements. If the difference in reporting dates exceeds three months, the associate or joint venture must establish an interim reporting date on the same date as that of the investor's financial statements.

Because goodwill forms an integral part of the cost price of an equity investment in an associate or joint venture, impairment of the goodwill element is not tested for separately; instead, the entire carrying amount of the investment is tested for impairment. **Any impairment relating** to the investment in the associate or **joint venture** may not be allocated to any of the associate's or joint venture's assets, including goodwill. Impairment testing is to be carried out on the investment as a single asset in accordance with IAS 36.

In the event the shares are purchased and intended for **resale in the short term**, the equity investments held in the associate or joint venture should be classified and measured according to IFRS 5, under **"non-current assets held for sale".**

4. Disclosure

Disclosure requirements are contained in a separate Standard IFRS 12.