



PASSFR.EU

A Digital Learning Platform for Generation Z:
Passport to IFRS®

IAS® Standard 28 Investments in Associates and Joint Ventures



WHAT AN ASSOCIATE IS?

HOW TO IDENTIFY AN ASSOCIATE?

KEY DEFINITIONS

Significant
influence

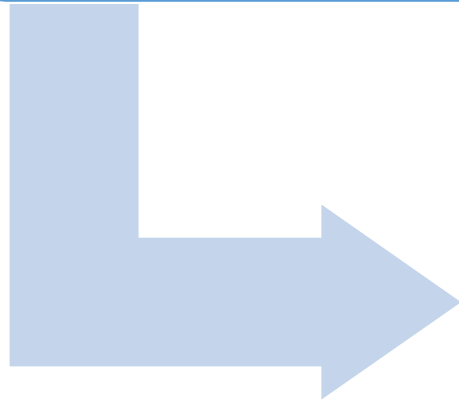
Another Indicators of Significant Influence

- Investor's representation on the board of directors,
- Investor's participation in decision-making processes such as dividends,
- Significant amount of transactions between the entity and its investee,
- Interchange of managerial personnel,
- Providing essential technical information.

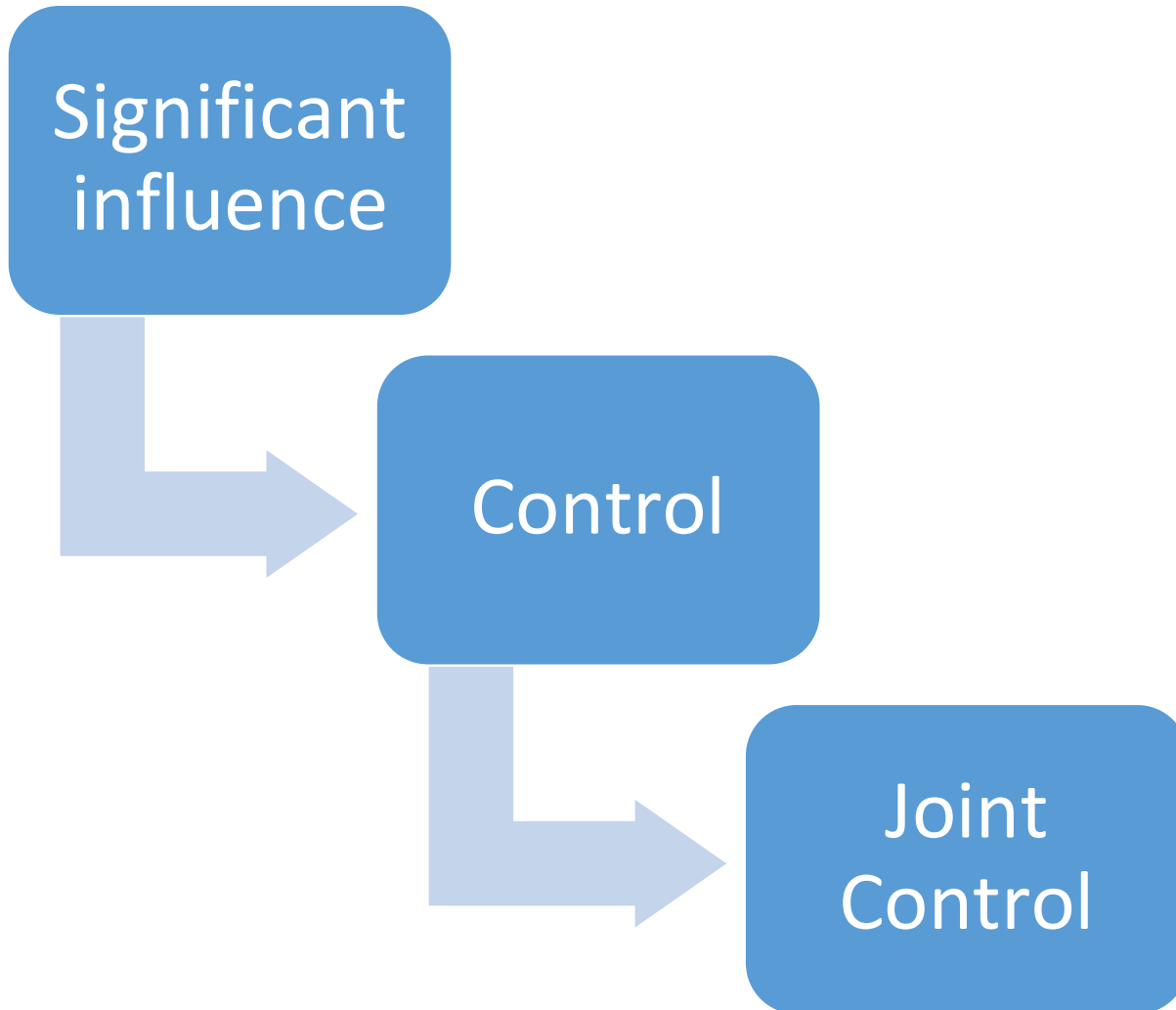
WHEN WILL SIGNIFICANT INFLUENCE DISAPPEAR?

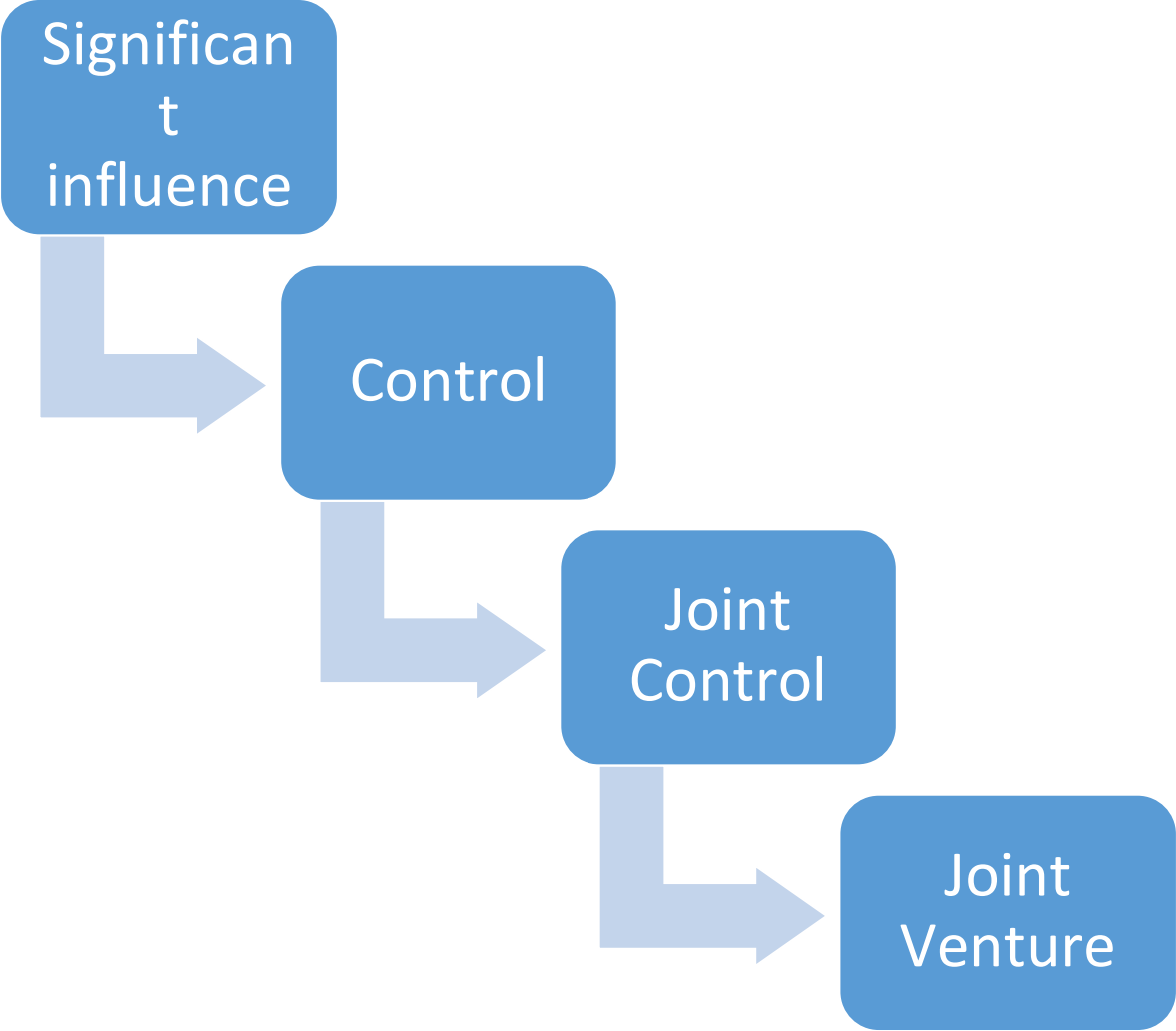


Significant
influence



Control



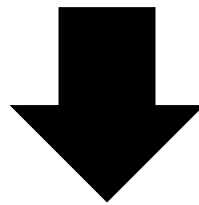


EXAMPLE





DOES NOT have a control or significant influence.



FINANCIAL ASSET

EXAMPLE

- C-day entity 10% share => Alp Solutions entity
- C-day entity has four directors on the board, and the board of directors consists of ten members.
- Based on the agreement, a majority of directors are required to approve the board decisions.
- Does C-day entity have a significant influence, control, or joint control over Alp Solutions or should Alp Solutions be considered as a financial asset for C-Day entity?




Significant
influence

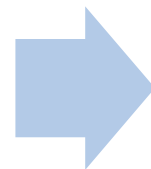
%20 or
more share

Other
indicators

	Subsidiary	Associate	Joint Agreement
CRITERIA	Control Power	Significant Influence	Joint Control
SHARE	More than %50	Between 20-50%	Equal
RECOGNITION	Consolidation	Equity Method	Depends on the type
OTHER INVESTMENT: Financial Instruments (IFRS 9)			

RECOGNITION AND MEASUREMENT

Significant
influence 



Equity
Method

Joint Ventures
with Joint Control

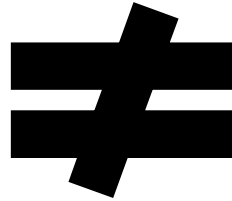


Equity
Method



REPORTING DATES

Investor



Associate



INITIAL MEASUREMENT



EXEMPTIONS FROM APPLYING THE EQUITY METHOD

The entity is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not applying the equity method.

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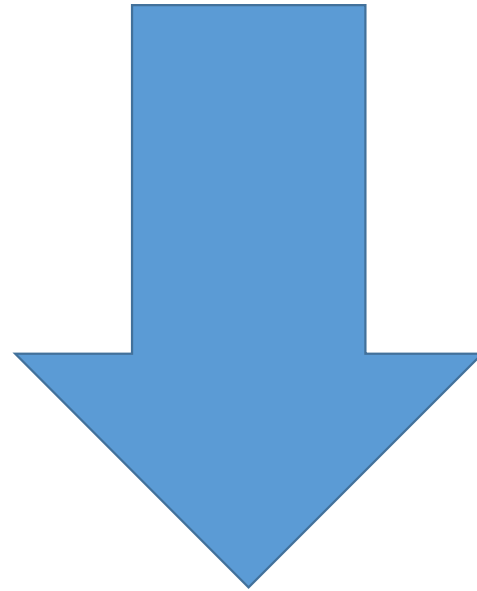
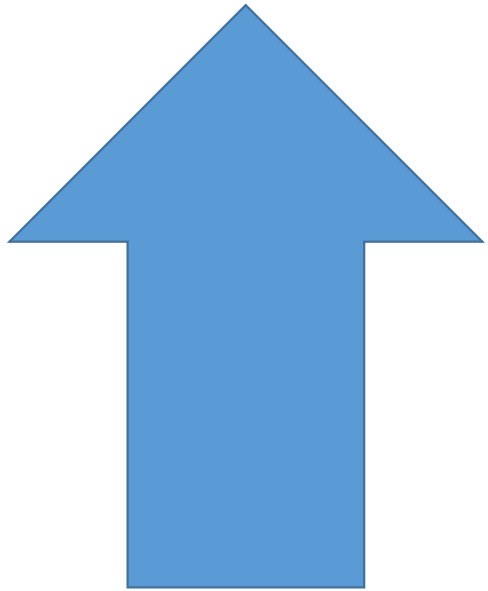
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The ultimate or any intermediate parent of the entity produces financial statements available for public use that comply with IFRSs.

MEASUREMENT AFTER RECOGNITION



CALCULATION OF THE EQUITY METHOD



GOODWILL????????????????

ELIMINATION OF IN-GROUP TRANSACTIONS

Consolidation Method



Elimination of all in-group transactions

Equity Method



Partial elimination



«Profit Elements»



Does not cause duplication

EXAMPLE

G Entity %40 => C Entity

G Entity – CU10,000 merchandise => Entity C

Entity C – CU8,000 merchandise => Third Party

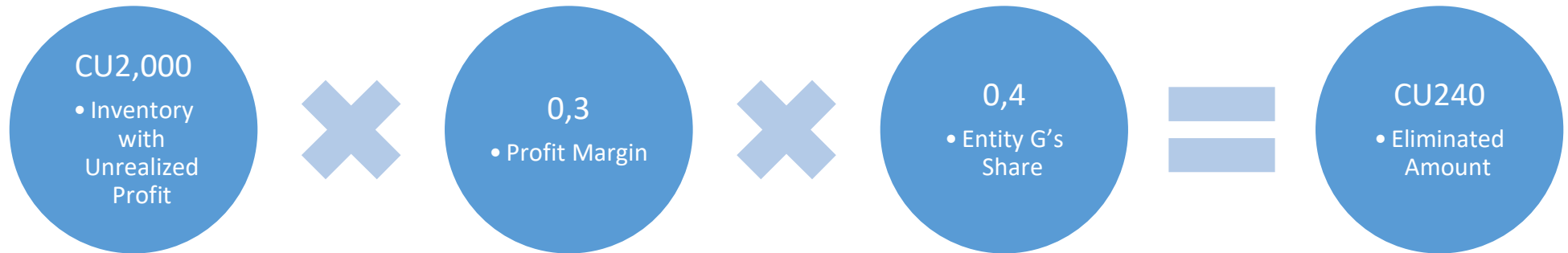
Entity C holds CU2,000 merchandise

Profit Margin = %30

Calculate the eliminated amount of in-group transactions?



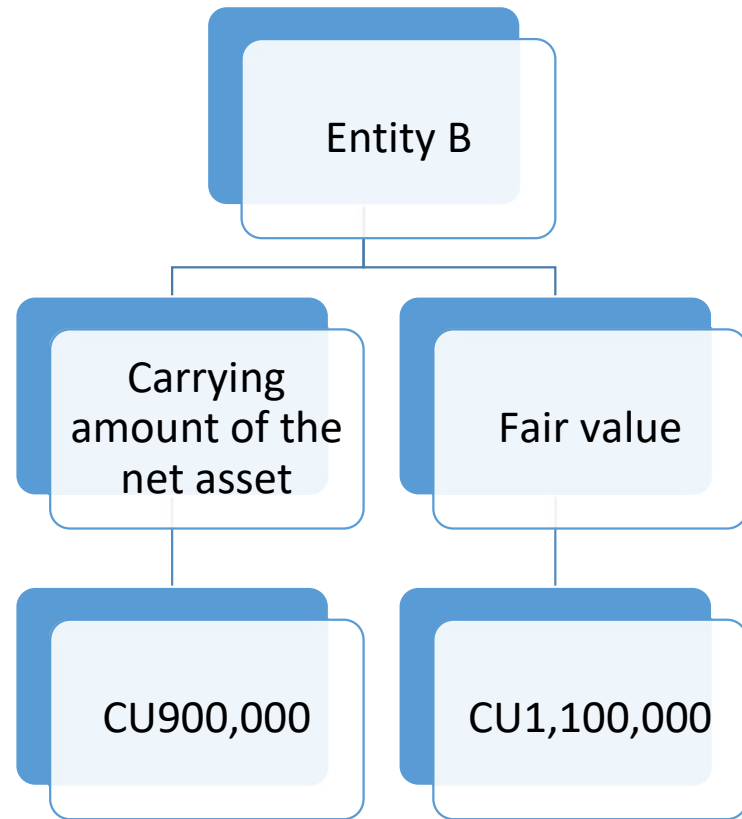
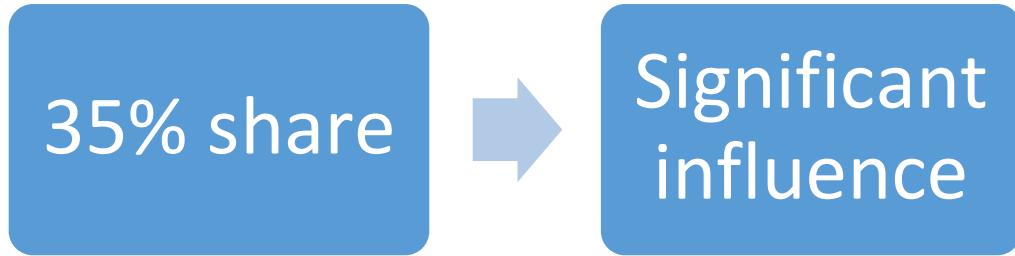
TRANSFERRED AMOUNT BETWEEN PARTNERS	REALIZED PROFIT	INVENTORY WITH UNREALIZED PROFIT*
CU10,000	CU8,000	CU2,000



DISCONTINUING THE USE OF EQUITY METHOD

- The investor derecognizes associates or joint ventures when it loses their significant influence upon the investee. This could happen as follows:
 - Joint venture or associate becomes a subsidiary.
 - Joint venture or associate is partially or fully disposed of.
 - In case of an entity decides not to use the equity method, the entity shall account for all amounts previously recognized in other comprehensive income about that investment on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities.

EXAMPLE



EXAMPLE

a) Entity A transferred CU475,000 for 35% shares.

Find the goodwill and make journal entry of the transaction

SOLUTION A

- Entity A's share on Entity B's fair value is CU385,000
(CU1,100,000 * 0,35).
- Transferred Amount
CU475,000
- Goodwill
CU90,000

Dr. Investment in B		475,000	
	Cr. Cash		475,000

EXAMPLE

b) Entity A transferred CU350,000 for 35% shares.

Find the goodwill and make journal entry of the transaction

SOLUTION B

- Entity A's share on Entity B's fair value is CU385,000
(CU1,100,000 * 0,35).
- Transferred Amount
CU350,000
- Bargain Income
CU35,000

Dr. Investment in B

385,000

Cr. Cash

350,000

Cr. Bargain
Income

35,000

EXAMPLE

c) On 31 December 2021, Entity B reports CU60,000 profit and pays CU21,000 dividends in cash.

Make the journal entry of this transaction

SOLUTION C

Increase carrying
amount of the
investment

When Associate reports profit

Decrease carrying
amount of the
investment

When Associate pay dividends

In case of an associate reports profit

Dr. Investment in B		21,000	
	Cr. Profit of associates measured with equity method		21,000

In case of an associate pay dividends

Dr. Cash		7,000	
	Cr. Investment in B		7,000

EXAMPLE

d) Entity B has “Financial Assets Held for Sale” and its fair value rises CU10,000 and it is recognized in other comprehensive income.

Make the journal entry of this transaction

- SOLUTION D

Dr. Investment in B		3,500	
	Cr. Fair value gain on financial assets held for sale		3,500

EXAMPLE

e) Entity B revalued its property, plant and equipment and reports CU15,000 in the other comprehensive income.

Make the journal entry of this transaction

- SOLUTION E

Dr. Investment in B		5,250	
	Cr. Gains on fixed assets revaluation		5,250



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