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EQUITY METHOD IN SEPARATE FINANCIAL STATEMENTS (AMENDMENTS TO IAS 27)
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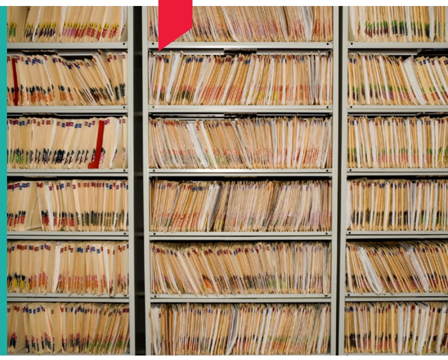

Summary

The International Accounting Standards Board (IASB) published *Equity Method in Separate Financial Statements* (Amendments to IAS 27) on 12 August 2014.

The amendments include the option for an entity to account for its investments in subsidiaries, joint ventures, and associates using the equity method in its separate financial statements. The accounting approach that is selected is required to be applied for each category of investment.

Before the amendments entities either accounted for its investments in subsidiaries, joint ventures or associates at cost or in accordance with IFRS 9 *Financial Instruments* (or IAS 39 *Financial Instruments: Recognition and Measurement* for those entities that have yet to adopted IFRS 9). The option to present its investments using the equity method result in the presentation of a share of profit or loss, and other comprehensive income, of subsidiaries, joint ventures and associates with a corresponding adjustment to the carrying amount of the equity accounted investment in the statement of financial position. Any dividends received are deducted from the carrying amount of the equity accounted investment, and are not recorded as income in profit or loss.

The amendments are effective for annual periods beginning on or after 1 January 2016 and are required to be applied retrospectively. Early adoption is permitted.

STATUS
Final

EFFECTIVE DATE
1 January 2016. Earlier application permitted

ACCOUNTING IMPACT
Entities have an option to account for its subsidiaries, joint ventures and associates using the equity method in its separate financial statements.

Background

The project to amend IAS 27 *Separate Financial Statements* was added to the IASB's agenda following requests that were received in responses to its 2011 Agenda Consultation.

According to respondents some countries require entities to prepare separate financial statements in accordance with local GAAP using the equity method to account for investments in subsidiaries, joint ventures and associates. For entities where the use of the equity method in separate financial statements was the only difference between the local GAAP requirements and IFRS an additional set of financial statements was required in order to comply with IAS 27.

To address this issue, the IASB considered restoring the option to use the equity method in separate financial statements in order to facilitate convergence of local GAAP and IFRS, thereby driving down compliance costs.

Areas in which the application of the equity method in the stand alone financial statements will result in a different treatment compared to the consolidated financial statements are:

– **Impairment testing requirements in IAS 28** – Goodwill is not separately tested for impairment as required for consolidated financial statements according to IAS 36, instead the entire carrying amount (incl. goodwill) is tested for impairment

– **Subsidiaries with a net liability position** – The carrying amount of an at equity investment cannot be negative unless the investor has other obligations (legal or constructive) that requires the recognition of a liability

– **Capitalisation of borrowing costs incurred by a parent in relation to the assets of a subsidiary** – When a parent borrows funds and its subsidiary uses them for the purpose of obtaining a qualifying asset, the borrowing costs are considered to be directly attributable on a consolidated level. However, this treatment is not appropriate for the separate financial statements of the parent.

Amendments to IAS 27

The amendments add the option to IAS 27 to account for investments in subsidiaries, joint ventures, and associates using the equity method as described in IAS 28.

The amended IAS 27 allows an entity to use the following methods to account for its investments:

– At cost;

– In accordance with IAS 39 (or IFRS 9); or

– Using the equity method.

IFRSs themselves continue not to require the preparation of separate financial statements.

The application of the amendment is likely to be attractive to those entities in jurisdictions where the law requires separate financial statements which include equity accounting. In many cases, the amendments will enable them either to eliminate the need for two sets of separate financial statements (one IFRS and one legal), or make the adoption of IFRS possible for both consolidated and separate financial statements.

Consequential amendment to IAS 28

A consequential amendment was also made to IAS 28 *Investments in Associates and Joint Ventures*, to avoid a potential conflict with IFRS 10 *Consolidated Financial Statements* for partial sell downs.

For situations where the interest in an associate or a joint venture is reduced but the investment continues to be classified as an associate or joint venture, the entity is only required to reclassify to profit or loss the proportion of the gain/loss previously recognised in other comprehensive income relating to that reduction in ownership interest if that gain/loss would be required to be reclassified on disposal of the related assets/liabilities.

Effective Date and Transition

The effective date for the amendments is for annual periods beginning on or after 1 January 2016, and is to be applied retrospectively. Hence, entities affected have to adjust their prior periods for the effects of the application of the equity method.

Early application is permitted. Entities that decide to adopt the requirements early shall disclose that fact.

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