STAFF PAPER

April 2022

IASB® meeting

Project	Equity Method	
Paper topic	Purchases of an additional ownership interest in an associate without a change in significant influence	
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Purpose of this paper

1. The purpose of this paper is for the International Accounting Standards Board (IASB) to discuss the staff analysis on purchases of an additional interest in an associate without a change in significant influence.

Staff recommendation

2. The staff recommends that the IASB:

    (a) consults on measuring the cost of an investment in an investee at the date of obtaining significant influence as the fair value of the consideration transferred, including the fair value of any previously held interest in the investee;

    (b) continues to explore both approaches identified in this paper for purchases of an additional interest in an associate and consider how each approach could be used to develop solutions to other application questions.

Structure of the paper

3. The paper is structured as follows:

    (a) application question (paragraphs 4–6 of this paper);

(b) relevant requirements in IFRS Accounting Standards (paragraphs 7–9 of this paper);

(c) staff analysis (paragraphs 10–55 of this paper);

(d) questions for the IASB and staff recommendation (paragraphs 56–58 of this paper);

(e) Appendix A—applying the qualitative characteristics to the identified approaches; and

(f) Appendix B—illustrative example.

Application question

4. At its March 2021 meeting, the IASB discussed the process of selecting application questions to be included in the scope of the Equity Method research project[1].

5. At its October 2021 meeting, the IASB was provided with an update on the application questions within the scope of the research project applying the agreed selection criteria.[2]

6. This agenda paper presents the staff analysis on how to apply the equity method when the investor purchases an additional interest in an associate, accounted for applying the equity method, without a change in significant influence.

Relevant requirements in IFRS Accounting Standards

7. IAS 28 *Investments in Associates and Joint Ventures* does not include requirements for purchases of an additional interest in an associate without a change in significant influence.

8. In the absence of requirements that specifically apply to this transaction, an entity applies the hierarchy in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.* In the staff's view, an entity may consider the applicability of the following IFRS Accounting Standards dealing with similar and related issues:

   (a) Paragraph 24 of IAS 28 which states that, when an interest in an associate becomes an investment in a joint venture, the entity does not remeasure the

[1]March 2021 IASB meeting AP13: Project update and next steps (ifrs.org)
[2] October 2021 IASB meeting AP13: Application questions selected and proposed next steps (ifrs.org)

retained interest. The IASB introduced this requirement when developing IFRS 11 *Joint Arrangements*. The IASB explained that as the investment continues to be measured using the equity method and there is neither a change in the boundaries of the group (as defined in IFRS 10 *Consolidated Financial Statements*) nor a change in the measurement requirements, the event therefore does not warrant remeasurement of the retained interest at fair value.[3]

(b) Paragraph 26 of IAS 28, which states that many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in IFRS 10 and that the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate or a joint venture. Paragraph 26 of IAS 28 predates IFRS 10 and was not reconsidered as part of the business combinations or consolidation project (see agenda paper 13B of this meeting).

(c) Paragraph 42 of IFRS 3 *Business Combinations*, which states that an acquirer shall remeasure its previously held equity interests in the acquiree at its acquisition date fair value.

(d) Paragraph B96 of IFRS 10, which states that, when the proportion of the equity held by the non-controlling interest changes, the entity adjusts the carrying amounts of the controlling and non-controlling interests and recognises directly in equity any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid; and

(e) Paragraph B33C of IFRS 11, which states that, when a joint operator increases its interest in a joint operation in which the activity of the joint operation constitutes a business, the joint operator does not remeasure previously held interests.

9. The following requirements in IAS 28 apply when an investor decreases its interest in the associate:

[3] See paragraph BC30 of the Basis for Conclusions on IAS 28

(a) if the investor retains significant influence, paragraph 25 of IAS 28 requires an entity to reclassify to profit or loss the proportion of the gain or loss previously recognised in other comprehensive income relating to the reduction in ownership interest, if that gain or loss would be required to be reclassified in profit or loss on the disposal of the related assets or liabilities.

(b) if the investor loses significant influence, paragraph 22(b) of IAS 28 requires that, if the retained interest in a former associate is a financial asset, the investor shall measure the retained interest at its fair value at the date significant influence is lost.

Staff analysis of the application question

10. This section of the paper presents the staff analysis:

(a) scope of the analysis (paragraphs 11–14 of this paper);

(b) measuring the cost of the investment (paragraphs 15–17 of this paper);

(c) staff approach to the analysis (paragraphs 18–50 of this paper); and

(d) how the approaches relate to the principles identified in IAS 28 (paragraphs 51–55 of this paper).

Scope of the analysis

11. This paper discusses three approaches for purchases of an additional interest in an associate without a change in significant influence. The staff is still assessing any implication of applying the approaches to:

(a) other transactions that change an investor’s level of ownership and the associate’s net assets, such as new share issues and buy-backs;

(b) disposals that do not result in a loss of significant influence.

The staff will present its assessment of these items at a future meeting.

12. At a later stage of the research project, the staff will consider how the analysis applies when an entity accounts for investments in subsidiaries, joint ventures and associates using the equity method in its separate financial statements.

13. The analysis in this paper does not apply to transactions and events that do not change the investor’s level of ownership, such as:

    (a) stock splits and reverse splits;

    (b) an associate’s accounting for a cash flow hedge in accordance with IFRS 9 *Financial Instruments*;

    (c) an associate's accounting for an equity-settled share-based transaction until the instruments vest and are issued.

14. For simplicity, the analysis assumes that:

    (a) the transactions are settled in cash (no contributions or exchanges of non-monetary assets or businesses);

    (b) when the investor sells or purchases shares in the associate, the transaction is not conducted with an entity under common control or with another associate of the investor; and

    (c) the associate is a business.

Measuring the cost of the investment

15. The staff thinks that the application question may, in part, be derived from uncertainty in how to measure the cost of an investment in an associate. Paragraph 32 of IAS 28 requires an investor obtaining significant influence to recognise the difference between the cost of the investment and the investor’s share of the associate’s net assets as goodwill (or bargain purchase gain). There are therefore (arguably) two aspects to the question on how to apply the equity method to purchases of an additional interest in an associate without a change in significant influence: (i) how to measure the cost of the investment: and (ii) how to measure the investor’s share of the associate’s net assets. IAS 28 does not have requirements on how to measure the cost of the investment.

16. The IASB examined the cost of an investment when acquiring a subsidiary in developing IFRS 3. In the predecessor standard IAS 22 *Business Combinations*, one option was to accumulate the costs of acquiring interests in the subsidiary and then allocate the accumulated cost to the identifiable net assets acquired. This resulted in measuring the identifiable net assets at a mixture of values determined at each acquisition date.

Paragraph 42 of IFRS 3 requires an acquirer to remeasure its previously held equity interests in the acquiree at its acquisition-date fair value, consistent with an economic entity perspective[4].

17. The IFRS Interpretation Committee (Committee) examined how to measure the cost of an investment in a subsidiary when a parent accounts for investments in subsidiaries at cost in its separate financial statements.[5] The Committee stated that when the parent holds an interest in an investee that qualifies as a financial instrument in accordance with IFRS 9 and subsequently obtains control of that investee, a reasonable reading of IFRS Accounting Standards could result in the parent using either of the following approaches:

    (a) the consideration paid for the interest (original consideration), plus any consideration paid for the additional interest (view 1: accumulated cost approach); or

    (b) the fair value of the interest at the date of obtaining control of the subsidiary, plus any consideration paid for the additional interest (view 2: fair value as deemed cost approach).

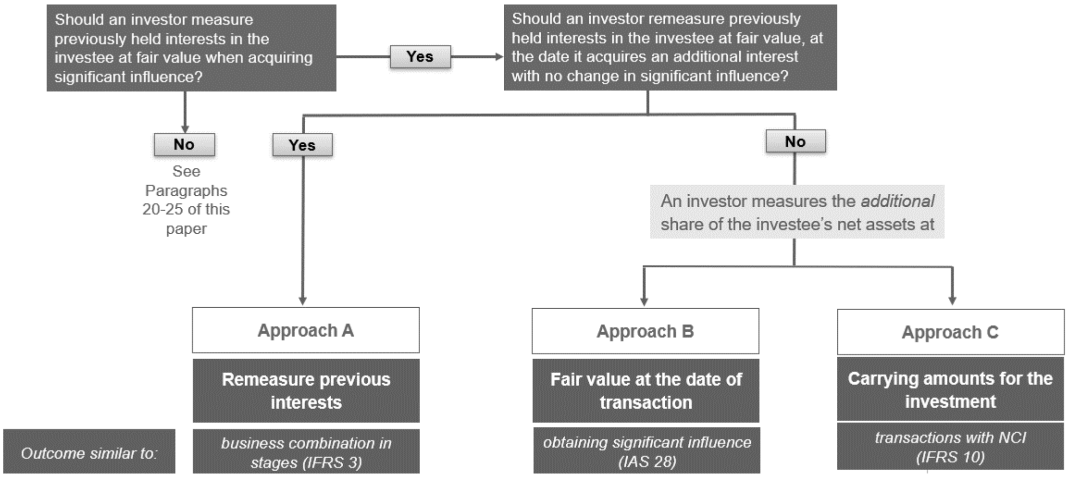
Staff approach to the analysis

18. In the staff's view, determining how to measure the cost of the investment applying IAS 28 is part of addressing the application question in paragraph 6 of this paper. The staff's analysis considers measurement of the cost of the investment both at the date the investor obtains significant influence, and when the investor purchases an additional interest in the investee without a change in significant influence.

[4] Agenda Paper 13B provides more detail on how the IASB reached its conclusions in the Business Combination project

[5] IFRIC Agenda Decision, IAS 27, Separate Financial Statements—Investment in a subsidiary accounted for at cost: Step Acquisitions.

19. The following diagram summarises the staff approach to the analysis:



Obtaining significant influence

20. In order to answer the application question in paragraph 6 of this paper, the staff recommends that the IASB consults (either in a Discussion Paper or in an Exposure Draft) on measuring the cost of an investment as the fair value of the consideration transferred at the date significant influence is obtained, including the fair value of any previously held interest in the investee at that date. This would be consistent with the fair value as deemed cost approach in the IFRIC Agenda Decision (view 2 in paragraph 17(b) of this paper)

21. In developing this recommendation, the staff took into consideration:

(a) obtaining significant influence changes the relationship between the investor and the investee;

(b) obtaining significant influence changes the recognition and measurement requirements for the investment;

(c) prior to obtaining significant influence an entity applies IFRS 9 and measures the investment at fair value at each reporting date; and

(d) measuring previously held interest at fair value when the investor obtains significant influence, plus the fair value of any consideration paid for the additional interest, is consistent with the requirement in paragraph 22(b) of IAS 28 to measure any retained interest in a former associate at fair value when the investor loses significant influence.

22. Paragraph 32 of IAS 28 requires an entity to measure its share of the associate's net identifiable assets at their fair value at the date significant influence is obtained; any difference between the cost of the investment and the entity's share of the associates net identifiable assets is recognised as goodwill (or a bargain purchase gain). The investor's share of profit or loss is subsequently adjusted to reflect any fair value adjustments to the associate's net assets at the date significant influence was obtained.

23. Applying paragraph 32 of IAS 28, the investor applies a single measurement to its interest in the associate. In the staff's view this reflects a view that, when the investor obtains significant influence, the interest is recognised as a single asset and not as an accumulation of purchases.

24. The staff believes that measuring the cost of an investment as the fair value of the consideration transferred at the date significant influence is obtained, including the fair value of any previously held interest in the investee at that date would be consistent with that view that the investments is a single asset, because the investor would apply a single measurement to its interest in the investee.

25. The staff's recommendation would not change the measurement requirements for previously held interests, if these are financial assets measured in accordance with IFRS 9. An implication, that would need to be considered at a future point, is the cost of an investment when applying IAS 27 *Separate Financial Statements*.

Increasing the investor's interest with no change in significant influence

26. Recognising an investment in an associate as a single asset on obtaining significant influence does not automatically imply that the entity continues to recognise the investment as a single asset if it acquires an additional interest without a change in significant influence. The staff has identified three approaches for acquisition of an additional interest in an associate without a change in significant influence.

    (a) Approach A—continue to measure the investment as a single asset; the approach would remeasure both the investor's share of the associate's net assets at fair value and measure the aggregate cost of the investment at fair value at the date of acquiring the additional interest (paragraphs 29–35 of this paper).

(b) Approach B—measure the interest as an accumulation of purchases. The investor would recognise its additional share of the associate's net assets with the cost (being the fair value of the consideration transferred) for the additional interest (paragraphs 36–44 of this paper).

(c) Approach C—continue to measure the interest as a single asset, but based on the investor's share of the associate's net assets at their carrying amounts for the investment[6], with the cost (being the fair value of the consideration transferred) for the additional interest (paragraphs 45–50 of this paper).

27. The following table describes the features of the three approaches. Appendix B includes numerical examples illustrating the application of the approaches.

	Approach A	Approach B	Approach C
Cost of the investment	Measured as a single asset at fair value at the date of acquiring the additional interest. Previously held interests are remeasured to fair value and the difference with the carrying amount is recognised in comprehensive income	Measured as the aggregate of (a) cost (defined as fair value at the date the investor obtained significant influence); and (b) the fair value of the consideration paid for the additional share.	Same as Approach B
Investor's share of the associate's net assets	Measured as a single asset based on the fair value of the associate's net assets at the date of acquiring the additional interest.	Measured based on the aggregate of the fair value of the associate's net assets at the date the investor obtained significant influence, plus post-acquisition changes (carrying amounts for the investment); and, for the additional share, based on the fair value of the associate's net assets at the date of acquiring the additional interest	Measured as a single asset based on the associate's net assets at their carrying amounts for the investment.

[6] In this paper, 'carrying amounts for the investment' refer to the fair value of the associate's net assets at the date the investor obtains significant influence, plus the post-acquisition changes in net assets.

Difference between the consideration paid and the value attributed to the investor's share of the associate's net assets.	Goodwill or bargain purchase gain.	Goodwill or bargain purchase gain.	Positive difference as goodwill for an amount proportionate to the goodwill recognised when significant influence was obtained, with any residual recognised as an expense. Negative difference as a bargain purchase gain.

28. The following paragraphs analyse the three approaches. Appendix A to this paper provides a more complete analysis of applying the qualitative characteristics of useful financial information as described in the *Conceptual Framework for Financial Reporting* to the approaches, as well as a tentative staff assessment of whether each approach introduces cost constraints.

Approach A

Applying the qualitative characteristics

29. Approach A provides fair value information on the investment as a single asset updated to the date of the latest purchase. The remeasurement of the previously held interest shows how the equity method compares to fair value measurement; this information assists in assessing the investment's expected contribution to future cash flows, and how effectively management has discharged its responsibilities to use the entity's economic resources.

30. Approach A would also provide updated fair value information on financial performance, because the investor would adjust its share of profit or loss to reflect fair value adjustments to the associate's net assets.

31. Information provided using fair value may have predictive value for the users as the information reflects market participant views. Remeasuring previously held interests and the investor's share of the net assets may also provide confirmatory information as it will provide users with feedback about previous expectations.

32. Approach A would require the previously held interest to be remeasured which will include measurement uncertainty if the associate is not publicly traded. However, the measurement uncertainty should be limited as the investor should be able to derive the fair

value of the previously held interest from the negotiations for the additional share. Approach A would also require determining the updated fair value of the net assets of the associate, which also encompass measurement uncertainty, because the net assets are not remeasured in the financial statements of the associate.

Other considerations

33. Applying Approach A assumes that fair value is the most relevant information at the date an investor's increases its interest in the associate, similar to the IASB's view that fair value provides the most relevant information when an acquirer obtains control in a business combination achieved in stages. IFRS 3 requires the acquirer to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the acquiree's net identifiable assets at their acquisition-date fair values.

34. The IASB included its rationale when developing the requirements for business combinations achieved in stages (on acquisition of control) in:

    (a) paragraph BC384 of the Basis for Conclusions of IFRS 3 explains that acquiring control is a significant economic event that changes the nature of the investment. The investor stops accounting for the investment and starts accounting for the assets and the liabilities of the subsidiary; and

    (b) paragraph BC199 of the Basis for Conclusions of IFRS 3 explains that prior cost-accumulation practices that retained the carrying amount of pre-acquisition interests in the measurement of the cost of the business combination led to recognition of the acquiree's net identifiable assets at a mixture of current exchange prices and carry-forward book values for each purchase. The resulting information was not useful.

35. Approach A results in the investor measuring the investment as a single asset and avoids the use of a mixed measurement. However, it results in remeasurement of the whole interest although there is not a change in the boundary of the group. Increasing an entity's interest in an investee while retaining significant influence is not a significant economic event that changes the nature of the investment.

Approach B

Applying the qualitative characteristics

36. Approach B provides fair value information on the additional share of the associate's net assets; and historical cost information on the previously held interest.

37. Approach B would also provide mixed information on financial performance, because the investor would adjust its share of profit or loss to reflect fair value adjustments at different dates:

    (a) the date significant influence was acquired for the previously held interest; and

    (b) the date of acquiring the additional share.

38. Information provided on the fair value of the additional interest may have predictive value. Since Approach B does not require remeasurement of the previously held interest, it would not provide confirmatory information on its current value directly, although a user would be able to derive this information from the consideration paid for the additional interest. A user would be able to calculate the returns earned by the investor on the aggregate consideration paid for the investment.

39. Approach B assumes that, if the equity method of accounting provides useful information using fair value at the date significant is obtained, the same information is useful for additional purchases and therefore remeasure of the previously held interest does not provide relevant information.

40. Applying Approach B, the investor would not be required to determine the fair value of the previously held interest. This would reduce measurement uncertainty when the associate is not publicly traded. The investor would not need to assess if the price paid per share can be used without any adjustment to measure the fair value per share of the previously held interest.

41. Applying Approach B, the investor would have to determine the fair value at the transaction date of the associates' net assets, which encompasses measurement uncertainty.

Other considerations

42. Applying Approach B assumes that updating information to fair values for the previously held share of the associate's net assets is not relevant when there is no change to the boundaries of the group as defined in IFRS 10. IFRS Accounting Standards do not require remeasurements for other transactions that do not change the group boundaries:

    (a) an interest in an associate becoming an interest in a joint venture (paragraph 24 of IAS 28);

    (b) a joint operator increasing its interest in a joint operation that is a business (paragraph B33C of IFRS 11); and

    (c) a party to a joint operation obtaining joint control (paragraph B33CA of IFRS 11).

43. Approach B reflects a view that the investment is an accumulation of purchases. The measurement of the investment is affected by the historical pattern of purchases (and disposals) after the investor obtains significant influence. This will impede comparability between two entities holding interests in the same associates that were acquired on different dates.

44. Disaggregating the investment could also have implications in applying the equity method to some transactions or fact patterns:

    (a) if the investor decreases its interest without losing significant influence, the investor may need a disaggregation formula (such as first-in-first-out or weighted average cost) to determine the disposed share of the associate's net assets; and

    (b) the investor may recognise goodwill on the additional share after previously recognising a bargain purchase gain when obtaining significant influence; or recognise impairment losses only on part of the investment, because the share of net assets (and goodwill) for each portion have been determined using fair values at different dates.

Approach C

Applying the qualitative characteristics

45. Approach C provides historical cost information on the investor's share of the associate's net assets as a single asset. Approach C would also provide financial performance information on historical cost basis because the investor would continue adjusting its share of profit or loss in its entirety to reflect fair value adjustments made to the associate's net assets (and goodwill recognised) at the date significant influence was obtained.

46. Approach C does not require determination of the fair value of the previously held interest nor of the fair value of the additional share of the associate's net assets, which eliminates measurement uncertainty. It also allows the comparison between investments in associates regardless of the date or pattern of purchase.

Other considerations

47. Similar to Approach A, Approach C reflects the view that the investment in an associate is a single asset. Similar to Approach B, Approach C assumes that remeasurement of previously held interests is relevant only when there is a change to the boundaries of the group.

48. Approach C would analogise the investor's purchase of an additional interest in an associate to a parent's purchase of an additional interest in a subsidiary in that the previously held share of the associate's net assets and the cost of the previously held investment are not remeasured.

49. However, it is not clear that Approach C would apply the link in paragraph 26 of IAS 28 between consolidation procedures and equity method procedures. When comparing these procedures, an important difference is that all of the subsidiary's assets and liabilities are recognised in the consolidated financial statements, but the investor has only recognised its share of the associate's net assets as a single line item.

50. In paragraph BCZ174 of the Basis for Conclusion of IFRS 10, the IASB explained that a parent acquiring an additional interest in a subsidiary would not remeasure the carrying

amounts of the subsidiary's net assets because the parent does not invest in new assets but obtains more rights from the assets it already controls.

How the approaches relate to the principles identified in IAS 28

51. At its June 2021 meeting, the IASB discussed the principles identified by the staff in IAS 28[7]. The objective of identifying the principles was to provide the IASB with a toolbox to help the Board answer the selected application questions. The IASB did not propose to incorporate the principles into IAS 28 but that the principles may be discussed in a forthcoming consultation paper, for example in the Basis for Conclusions to an exposure draft.

52. The principles are included in the agenda paper 13 of this meeting. The staff considers the one relevant principle to be principle D on initial recognition:

> Fair value at the date significant influence or joint control is obtained provides the most relevant information and faithful representation of an associate's or joint venture's identifiable net assets.

53. If it is assumed that the most relevant information at the time significant influence is obtained is also the most relevant when the investor purchases an additional interest without a change in significant influence and that the investment is measured as a single asset, principle D would provide support to Approach A.

54. If it assumed that the same information that is the most relevant at the moment significant influence is obtained would be the most relevant only in relation to the additional share, principle D would provide support to Approach B.

55. Principle D would not provide support to Approach C, which only gives historical cost information both in relation to the previously held (or retained) interest or to the additional investor's share of the associate's net assets.

[7] June 2021 IASB Board meeting [AP13: Identifying the principles in IAS 28 Investments in Associates and Joint Ventures (ifrs.org)]

Questions for the IASB and staff recommendation

56. In the staff's view, adopting Approach A or Approach B would provide a basis to assess other application questions, such as whether an investor 'catches up' any unrecognised losses when purchasing an additional interest or how to measure contingent consideration.

57. The staff therefore recommends that the IASB continues to explore approaches A and B discussed in this paper and considers how each approach would be used to develop solutions to other application questions.

58. The staff does not recommend continuing with Approach C because its basis would be a questionable analogy between the purchase of an additional interest in an associate and the purchase of a non-controlling interest in a subsidiary.

Questions for the IASB
1. Do you agree with the staff recommendation in paragraph 20 of this paper to consult on measuring the cost of an investment as the fair value of the consideration transferred at the date significant influence is obtained, including the fair value of any previously held interest in the investee at that date? 2. Do you have comments on the staff analysis and application of the qualitative characteristics to the approaches discussed in the paper? 3. Do you agree with the staff recommendation in paragraph 57 of this paper to continue exploring approaches A and B in developing solutions to other application questions?

Appendix A— Applying the qualitative characteristics

A1. Appendix A applies the qualitative characteristics of the *Conceptual Framework for Financial Reporting* to the approaches identified in this paper.

A2. The first table reports the application of the fundamental characteristics of relevance and faithful representation.

	Approach A	**Approach B**	**Approach C**
Relevance	Updates the interest in the associate to the fair value at the date of the latest purchase Gain on remeasurement provides indication of how the equity method compares to fair value measurement Provides information about unrecognised changes in the net asset values Information provided by measuring net assets at fair value may have predictive value at transaction date because fair value reflects market participants' current expectations about the amount, timing and uncertainty of future cash flows Enables a better assessment of how effectively management has discharged its responsibilities to use the entity's economic resources	Provides information on each tranche of the interest in the associate, at the fair value at the date of each purchase Allows to determine the return on the aggregated amount of consideration paid for the investment Information provided by measuring net assets at fair value may have predictive value at transaction date	Provides information on the interest in the associate at the share of the carrying amounts for the investment
Faithful representation	Represents the financial effect of changes in fair value of previously held	Represents the additional share of investee's net assets at	Represents amounts at the date significant influence is obtained

	interests and net assets of the investee at fair value Remeasurement previously held interest recognised in comprehensive income	fair value No remeasurement of previously held (or retained) interest represents that there is no change in the relationship between investor and investee	No remeasurement of previously held (or retained) interest represents that there is no change in the relationship between investor and investee

A3. The second table reports the application of the enhancing characteristics of comparability, verifiability and understandability. The staff did not identify implications for the characteristic of timeliness.

	Approach A	**Approach B**	**Approach C**
Comparability	Same measurement basis for pre-acquisition share and additional share of the associate's net assets. Comparable to another entity with a recent acquisition	Different measurement basis for pre-acquisition share and additional share of the associate's net assets impedes comparability	Same measurement basis for pre-acquisition share and additional share of the associate's net assets. Comparable to another entity with organic growth
Verifiability	A user can verify the transaction as the approach uses fair value information. Enables a better assessment of how effectively management has discharged its responsibilities to use the entity's economic resources.	A user can verify the consideration.	A user can verify the transaction as the approach is based on the carrying amounts for the investment. .
Understandability	Understandable but the remeasurement of previously held interest may require explanation, as it could not be predicted based on prior information. Remeasurement of previously held interest would need to be explained Recognising a gain might cause confusion	Different measurement bases impedes understandability, in particular if the investor has frequent changes in the level of ownership interest in the associate. More difficult to reconcile the share of profit or loss to be recognised in future.	Based on date significant influence obtained but not updated for fair value so may be less relevant. Disclosure in IFRS 12.B14b should allow to reconcile to the share of profit or loss to be recognised in future

	regarding accounting for a gain from a bargain purchase Disclosure required IFRS 12.B14b should allow to reconcile to the share of profit or loss to be recognised in future		

A4. Paragraph 2.42 of the *Conceptual Framework for Financial Reporting* states that the IASB applies the cost constraint in developing a proposed Standard. The table illustrates a tentative staff assessment of whether each approach introduces cost constraints.

Measurement of	**Approach A**	**Approach B**	**Approach C**
Previously held interest	✓	✗	✗
Additional share of the associate's net assets	✓	✓	✗

Appendix B—Illustrative example

B1. The example in Appendix B illustrates the application of the approaches identified in this paper.

B2. Investor acquires a 5% share in investee at 1/1/20X1 for a consideration of 200CU. The investment does not provide significant influence and is measured at fair value applying IFRS 9. At 31/12/20X1 the FV of the interest is 275CU.

The accounting entries for the year ending 31/12/20X1 are as follows:

To recognise the initial investment		
Dr Financial instruments	CU200	
Cr Cash		CU200
To recognise the fair value change in accordance with IFRS 9		
Dr Financial instruments	CU75	
Cr Profit or loss (or OCI)[8]		CU75

B3. Investor acquires an additional share of 15% in investee at 1/1/20X2 for an amount of 825CU. The investor obtains significant influence. At that date, the fair value of the net assets of the investee is 4,400CU.

B4. The profit or loss of the investee for the year ending on 31/12/20X2 is 700CU, including the effects of the adjustments based on the fair values of the investee's net assets at the date significant influence is obtained.

If the cost of the investment is measured as the fair value of the consideration transferred at the date significant influence is obtained, including the fair value of any previously held interest in the investee at that date, as per the staff recommendation in paragraph 20 of this paper, the accounting entries for the year ending 31/12/20X2 are (for simplicity, income tax effects are not considered):

[8] IFRS 9 allows an entity to elect to carry equity instruments at fair value with the changes recognised in other comprehensive income

To recognise the interest in the associate		
Dr Interest in the associate	CU1,100	
Cr Cash		CU825
Cr Financial instruments		CU275
To recognise the investor's share in the result in the associate		
Dr Interest in the associate	CU140	
Cr Profit or loss		CU140

B5. At 31/12/20X2 the reconciliation of the carrying amount of the investment in the associate is:

	1.1.20X2	**Result for the year**	**31.12.20X2**
Share of net assets	880	140	1,020
Goodwill	220	-	220
Total	1,100	140	1,240

B6. The investor acquires an additional share of 10% in investee B at 1/1/20X3 for an amount of 700CU without a change in significant influence. At that date, the fair value of the net assets of the investee is 5,400CU.

Approach A

The accounting entry applying approach A is as follows:

Dr Interest in the associate	CU860	
Cr Cash		CU700
Cr Remeasurement of financial instruments		CU160

B7. At 1/1/20X3 the reconciliation of the carrying amount of the associate applying approach A is:

	Previous interest	Additional share	Total
Share of net assets	1,080	540	1,620
Goodwill	320	160	480
Total	1,400	700	2,100

B8. The previously held interest is remeasured from CU1,240 to CU1,400.

B9. The accounting entry applying approach B is as follows:

Dr Interest in the associate	CU700	
Cr Cash		CU700

B10. At 1/1/20X3 this is the reconciliation of the carrying amount of the associate applying approach B is:

	Previous interest	Additional share	Total
Share of net assets	1,020	540	1,560
Goodwill	220	160	380
Total	1,240	700	1,940

B11. There is no remeasurement of the previous interest. As a consequence:

i. the share of net assets of the previous interest is measured based on the fair value of the associate's net assets at the date significant influence was obtained plus post-acquisition changes (CU4,400 + CU700) * 20%=CU1,020;

ii. the share of net assets of the additional share is measured at the fair value of the associate's net assets at the date of the new transaction CU5,400 * 10% = CU540.

B12. The accounting entry applying approach C is as follows:

Dr Interest in the associate	CU620	
Dr Profit or loss	CU80	
Cr Cash		CU700

B13. At 1/1/20X3 the reconciliation of the carrying amount of the associate applying approach C is:

	Previous interest	Additional share	Total
Share of net assets	1,020	510	1,530
Goodwill	220	110	330
Total	1,240	620	1,860

B14. There is no remeasurement of the previous interest. The share of net assets for the whole interest is measured based on the fair value of the associate's net assets at the date significant influence was obtained plus post-acquisition changes (CU4,400 + CU700) * 30% = CU1,530.

B15. The difference between the consideration paid for the additional share and the measurement of the additional share of the investee's net assets (CU700-CU510=CU190) is accounted for as follows:

i. goodwill (presented as subsumed in the investment in the associate) for an amount not exceeding the proportionate share of the goodwill on the previously held interest. In the example, the goodwill is measured at CU220 for the previous 20% interest, so the goodwill on the additional share of 10% could not exceed CU110;

ii. any residual is recognised as an expense in profit or loss.