

Equity Method in Separate Financial Statements **(Amendments to FRS 127)**

This Addendum sets out the amendments to FRS 127 Separate Financial Statements. An entity shall apply the amendments in this Addendum for annual periods beginning on or after 1 January 2016 retrospectively. Earlier application is permitted.

In the Introduction, paragraph IN1 is amended and paragraph IN2 is deleted. Deleted text is struck through and new text is underlined.

Introduction

IN1 IAS 27 *Separate Financial Statements* contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The Standard requires an entity preparing separate financial statements to account for those investments either at cost, or in accordance with IFRS 9 *Financial Instruments*, or using the equity method.

Paragraphs 4–7, 10, 11B and 12 are amended and paragraph 18J is added. Paragraphs 11B and 18A–18I were added by *Investment Entities* (Amendments to FRS 10, FRS 12 and FRS 127) issued by MASB in February 2013. Deleted text is struck through and new text is underlined.

Definitions

4 The following terms are used in this Standard with the meanings specified:

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Separate financial statements* are those presented by ~~a parent (ie an investor with control of a subsidiary) or an investor with joint control of, or significant influence over, an investee, an~~ entity in which the entity could elect, subject to the requirements in this Standard, to account for its investments are accounted for in subsidiaries, joint ventures and associates either at cost, ~~or~~ in accordance with FRS 9 *Financial

Instruments, or using the equity method as described in FRS 128 Investments in Associates and Joint Ventures.

- 5 The following terms are defined in Appendix A of FRS 10 *Consolidated Financial Statements*, Appendix A of FRS 11 *Joint Arrangements* and paragraph 3 of FRS 128 ~~*Investments in Associates and Joint Ventures*~~:
- associate
 - equity method
 - ...
- 6 Separate financial statements are those presented in addition to consolidated financial statements or in addition to the financial statements of an investor that does not have investments in subsidiaries but has investments in associates or joint ventures in which the investments in associates or joint ventures are required by FRS 128 to be accounted for using the equity method, other than in the circumstances set out in paragraphs 8–8A. ~~Separate financial statements need not be appended to, or accompany, those statements.~~
- 7 ~~Financial statements in which the equity method is applied are not separate financial statements. Similarly, the~~ The financial statements of an entity that does not have a subsidiary, associate or joint venturer’s interest in a joint venture are not separate financial statements.
- ...

Preparation of separate financial statements

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- 10 When an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either:
- (a) at cost, ~~or;~~
 - (b) in accordance with FRS 9; or
 - (c) using the equity method as described in FRS 128.

The entity shall apply the same accounting for each category of investments. Investments accounted for at cost or using the equity method shall be accounted for in accordance with *FRS 5 Non-current Assets Held for Sale and Discontinued Operations* when they are classified as held for sale or for distribution (or included in a disposal group that is classified as held for sale or for distribution). The measurement of investments accounted for in accordance with FRS 9 is not changed in such circumstances.

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- 11B When a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred, as follows:
- (a) when an entity ceases to be an investment entity, the entity shall account for an investment in a subsidiary, in accordance with paragraph 10, ~~either~~. The date of the change of status shall be the deemed acquisition date. The fair value of the subsidiary at the deemed acquisition date shall represent the transferred deemed consideration when accounting for the investment in accordance with paragraph 10.
 - (i) ~~account for an investment in a subsidiary at cost. The fair value of the subsidiary at the date of the change of status shall be used as the deemed cost at that date; or~~ [deleted by IASB]
 - (ii) ~~continue to account for an investment in a subsidiary in accordance with FRS 9.~~ [deleted by IASB]
 - (b) when an entity becomes an investment entity, it shall account for an investment in a subsidiary at fair value through profit or loss in accordance with FRS 9. The difference between the previous carrying amount of the subsidiary and its fair value at the date of the change of status of the investor shall be recognised as a gain or loss in profit or loss. The cumulative amount of any ~~fair value adjustment~~ gain or loss previously recognised in other comprehensive income in respect of those subsidiaries shall be treated as if the investment entity had disposed of those subsidiaries at the date of change in status.

- 12 ~~An entity shall recognise a dividend~~ Dividends from a subsidiary, a joint venture or an associate are recognised in profit or loss in its the separate financial statements of an entity when it's the entity's right to receive the dividend is established. The dividend is recognised in profit or loss unless the entity elects to use the equity method, in which case the dividend is recognised as a reduction from the carrying amount of the investment.

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Effective date and transition

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- 18J *Equity Method in Separate Financial Statements* (Amendments to FRS 127) issued in November 2014, amended paragraphs 4–7, 10, 11B and 12. An entity shall apply those amendments for annual periods beginning on or after 1 January 2016 retrospectively in accordance with FRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Consequential amendments to FRS 1 *First-time Adoption of Financial Reporting Standards*

This Addendum sets out amendments to FRS 1 First-time Adoption of Financial Reporting Standards that are a consequence of the MASB issuing Equity Method in Separate Financial Statements (Amendments to FRS 127). An entity shall apply those amendments for annual periods beginning on or after 1 January 2016. Earlier application of Equity Method in Separate Financial Statements (Amendments to FRS 127) is permitted. If an entity applies those amendments earlier it shall apply all amendments included in Equity Method in Separate Financial Statements (Amendments to FRS 127) at the same time.

Paragraph 39Z is added. New text is underlined.

Paragraphs 39I–39Y were amended by the following FRSs and are listed here for ease of reference.

Paragraph	Document title
39I	FRS 10 <i>Consolidated Financial Statements</i> FRS 11 <i>Joint Arrangements</i>
39J	FRS 13 <i>Fair Value Measurement</i>
39K	<i>Presentation of Items of Other Comprehensive Income</i> (Amendments to FRS 101)
39L	FRS 119 <i>Employee Benefits</i>
39M	IC Interpretation 20 <i>Stripping Costs in the Production Phase of a Surface Mine</i>
39N and 39O	<i>Government Loans</i> (Amendments to FRS 1)
39P–39R	<i>Annual Improvements 2009–2011 Cycle</i>

continued...

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Paragraph	Document title
39S	<i>Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance</i> (Amendments to FRS 10, FRS 11 and FRS 12)
39T	<i>Investment Entities</i> (Amendments to FRS 10, FRS 12 and FRS 127)
39U	<i>FRS 9 Financial Instruments</i> (IFRS 9 <i>Financial Instruments</i> as amended by IASB in November 2013)
39V	<i>FRS 14 Regulatory Deferral Accounts</i>
39W	<i>Accounting for Acquisitions of Interests in Joint Operations</i> (Amendments to FRS 11)
39X	<i>IFRS 15 Revenue from Contracts with Customers</i> (not adopted by MASB under the FRS Framework)
39Y	<i>FRS 9 Financial Instruments</i> (IFRS 9 <i>Financial Instruments</i> issued by IASB in July 2014)

Effective date

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39Z *Equity Method in Separate Financial Statements* (Amendments to FRS 127) issued in November 2014, amended paragraph D14 and added paragraph D15A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

In Appendix D, paragraph D14 is amended and paragraph D15A is added. Prior to this amendment, paragraph D14 was amended by FRS 11 *Joint Arrangements* issued by MASB in 2011 and FRS 9 *Financial Instruments* (IFRS 9 *Financial Instruments* issued by IASB in October 2010). Deleted text is struck through and new text is underlined.

Investments in subsidiaries, joint ventures and associates

- D14 When an entity prepares separate financial statements, FRS 127 requires it to account for its investments in subsidiaries, joint ventures and associates either:
- (a) at cost; ~~or~~
 - (b) in accordance with FRS 9; or
 - (c) using the equity method as described in FRS 128.
- ...
- D15A If a first-time adopter accounts for such an investment using the equity method procedures as described in FRS 128:
- (a) the first-time adopter applies the exemption for past business combinations (Appendix C) to the acquisition of the investment.
 - (b) if the entity becomes a first-time adopter for its separate financial statements earlier than for its consolidated financial statements, and
 - (i) later than its parent, the entity shall apply paragraph D16 in its separate financial statements.
 - (ii) later than its subsidiary, the entity shall apply paragraph D17 in its separate financial statements.

Consequential amendments to FRS 128 *Investments in Associates and Joint Ventures*

This Addendum sets out amendments to FRS 128 Investments in Associates and Joint Ventures that are a consequence of the MASB issuing Equity Method in Separate Financial Statements (Amendments to FRS 127). An entity shall apply those amendments for annual periods beginning on or after 1 January 2016. Earlier application of Equity Method in Separate Financial Statements (Amendments to FRS 127) is permitted. If an entity applies those amendments earlier it shall apply all amendments included in Equity Method in Separate Financial Statements (Amendments to FRS 127) at the same time.

In the Introduction, paragraph IN8 is amended. Deleted text is struck through and new text is underlined.

Equity method

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IN8 An entity uses the equity method to account for its investments in associates or joint ventures in its consolidated financial statements. An entity that does not have any subsidiaries also uses the equity method to account for its investments in associates or joint ventures in its financial statements even though those are not described as consolidated financial statements. ~~The only financial statements to which an entity does not apply~~ An entity could elect to use the equity method ~~are in its~~ separate financial statements that it presents in accordance with IAS 27 *Separate Financial Statements*.

Paragraph 25 is amended and paragraph 45B is added. Deleted text is struck through and new text is underlined.

Changes in ownership interest

25 If an entity's ownership interest in an associate or a joint venture is reduced, but the ~~entity continues to apply the equity method~~ investment continues to be classified either as an associate or a joint venture respectively, the entity shall reclassify to profit or loss the proportion of the gain or loss that had previously been

recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

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Effective date and transition

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45B *Equity Method in Separate Financial Statements (Amendments to FRS 127)*, issued in November 2014, amended paragraph 25. An entity shall apply that amendment for annual periods beginning on or after 1 January 2016 retrospectively in accordance with FRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. Earlier application is permitted. If an entity applies that amendment for an earlier period, it shall disclose that fact.