INDAS 28 & INDAS 111
INVESTMENT IN ASSOCIATES & JV
& JOINT ARRANGEMENTS

(TOTAL NO. OF QUESTIONS – 10)

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RTPs QUESTIONS

Q1. (IND AS 111 – NOV. 18)

On 1st April 2017 Alpha Ltd. commenced joint construction of a property with Gama Ltd. For this purpose, an agreement has been entered into that provides for joint operation and ownership of the property. All the ongoing expenditure, comprising maintenance plus borrowing costs, is to be shared equally. The construction was completed on 30th September 2017 and utilisation of the property started on 1st January 2018 at which time the estimated useful life of the same was estimated to be 20 years.

Total cost of the construction of the property was Rs40 crores. Besides internal accruals, the cost was partly funded by way of loan of Rs10 crores taken on 1st January 2017. The loan carries interest at an annual rate of 10% with interest payable at the end of year on 31st December each year. The company has spent Rs4,00,000 on the maintenance of such property.

The company has recorded the entire amount paid as investment in Joint Venture in the books of accounts.

Suggest the suitable accounting treatment of the above transaction as per applicable Ind AS.

SOLUTION

As provided in Ind- AS 111 - Joint Arrangements - this is a joint arrangement because two or more parties have joint control of the property under a contractual arrangement. The arrangement will be regarded as a joint operation because Alpha Ltd. and Gama Ltd. have rights to the assets and obligations for the liabilities of this joint arrangement. This means that the company and the other investor will each recognise 50% of the cost of constructing the asset in property, plant and equipment.

The borrowing cost incurred on constructing the property should under the principles of Ind AS 23 'Borrowing Costs', be included as part of the cost of the asset for the period of construction.

In this case, the relevant borrowing cost to be included is Rs50,00,000 (Rs10,00,00,000 x 10% x 6/12).

The total cost of the asset is RS40,50,00,000 (Rs40,00,00,000 + Rs50,00,000) Rs20,25,00,000 crores is included in the property, plant and equipment of Alpha Ltd. and the same amount in the property, plant and equipment of Gama Ltd.

The depreciation charge for the year ended 31 March 2018 will therefore be Rs1,01,25,000 (Rs40,50,00,000 x 1/20 x 6/12) RS50,62,500 will be charged in the statement of profit or loss of the company and the same amount in the statement of profit or loss of Gama Ltd.

The other costs relating to the arrangement in the current year totallingRs54,00,000 (finance cost for the second half year of Rs50,00,000 plus maintenance costs of RS4,00,000) will be charged to the statement of profit or loss of Alpha Ltd. and Gama Ltd. in equal proportions- Rs 27,00,000 each.

Q2. (May 20 – IND AS 28)

An entity P (parent) has two wholly-owned subsidiaries - X and Y, each of which has an ownership interest in an 'associate', entity Z. Subsidiary X is a venture capital organisation. Neither of the investments held in associate Z by subsidiaries X and Y is held for trading. Subsidiary X and Y account for their investment in associate Z at fair value through profit or loss in accordance with Ind AS 109 and using the equity method in accordance with Ind AS 28 respectively.

How should P account for the investment in associate Z in the following scenarios?

Scenario 1: Where both investments in the associate result in significant influence on a stand-alone basis - Subsidiary X and Y ownership interest in associate Z is 25% and 20% respectively.

Scenario 2: When neither of the investments in the associate results in significant influence on a stand-alone basis, but do provide the parent with significant influence on a combined basis - Subsidiary X and Y ownership interest in associate Z is 10% each.

Scenario 3: When one of the investments in the associate results in significant influence on a stand-alone basis and the other investment in the associate does not result in significant influence on a stand-alone basis - Subsidiary X and Y ownership interest in associate Z is 30% and 10% respectively.

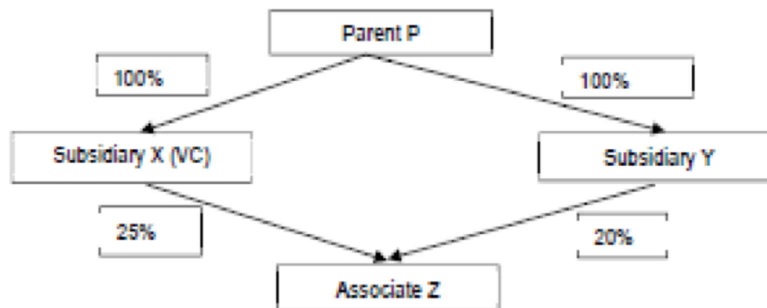
Assume there is significant influence if the entity has 20% or more voting rights.

SOLUTION

Paragraph 18 of Ind AS 28 states that, "when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure investments in those associates and joint ventures at fair value through profit or loss in accordance with Ind AS 109. An entity shall make this election separately for each associate or joint venture, at initial recognition of the associate or joint venture."

Paragraph 19 of Ind AS 28 provides that, "'when an entity has an investment in an associate, a portion of which is held indirectly through a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that portion of the investment in the associate at fair value through profit or loss in accordance with Ind AS 109 regardless of whether the venture capital organisation has significant influence over that portion of the investment. If the entity makes that election, the entity shall apply the equity method to any remaining portion of its investment in an associate that is not held through a venture capital organisation". Therefore, fair value exemption can be applied partially in such cases.

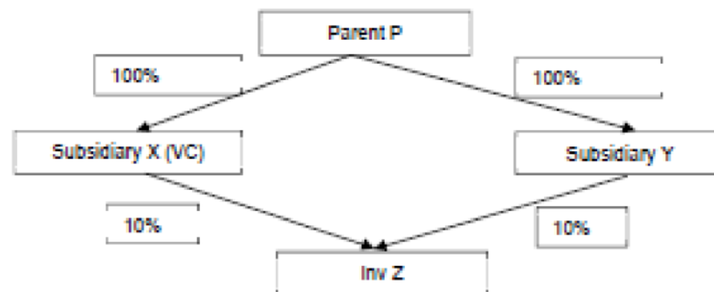
Scenario 1: *Where both investments in the associate result in significant influence on a stand-alone basis.*



In the present case, in accordance with paragraph 19 of Ind AS 28, P must follow equity method of accounting for its 20% interest held by Y.

Under the partial use of fair value exemption, P may elect to measure the 25% interest held by X at fair value through profit or loss.

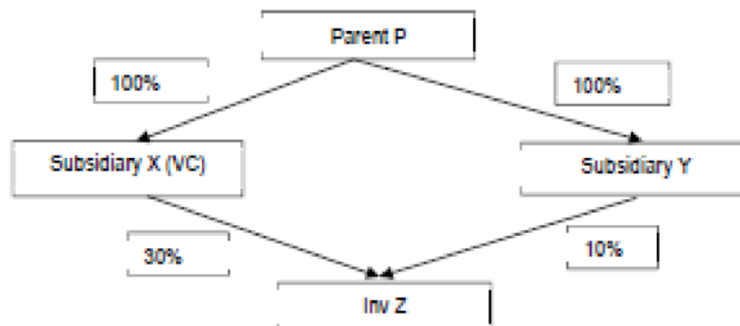
Scenario 2: *When neither of the investments in the associate results in significant influence on a stand-alone basis, but do provide the parent with significant influence on a combined basis.*



In the present case in accordance with the paragraph 19 of Ind AS 28, P must follow equity method of accounting for its 10% interest held by Y, even though Y would not have significant influence on a stand-alone basis.

Under the partial use of fair value exemption, P may elect to measure the 10% interest held by X at fair value through profit or loss.

Scenario 3: *When one of the investments in the associate results in significant influence on a stand-alone basis and the other investment in the associate does not result in significant influence on a stand-alone basis*



In the present case, in accordance with paragraph 19 of Ind AS 28, P must follow equity method of accounting for its 10% interest held by Y, even though Y would not have significant influence on a stand-alone basis. Under the partial use of fair value exemption, the P may elect to measure the 30% interest held by X at fair value through profit or loss.

Q3. (IND AS 111 – May 20)

AB Limited and BC Limited establish a joint arrangement through a separate vehicle PQR, but the legal form of the separate vehicle does not confer separation between the parties and the separate vehicle itself. Thus, both the parties have rights to the assets and obligations for the liabilities of PQR. As neither the contractual terms nor the other facts and circumstances indicate otherwise, it is concluded that the arrangement is a joint operation and not a joint venture.

Both the parties own 50% each of the equity interest in PQR. However, the contractual terms of the joint arrangement state that AB Limited has the rights to all of Building No. 1 owned by PQR and the obligation to pay all of the debt owed by PQR to a lender XYZ. AB Limited and BC Limited have rights to all other assets in PQR, and obligations for all other liabilities of PQR in proportion to their equity interests (i.e. 50% each).

PQR's summarized balance sheet is as follows:

(Rs. in crore)

	Amount
Building 1	240
Building 2	200
Cash	40
Total Assets	**480**
Equity	140
Debt owed to XYZ	240
Employee benefit plan obligation	100
Total Liabilities	**480**

How would AB Limited present its interest in PQR in its financial statements?

SOLUTION

Paragraph 20 of Ind AS 111 states that "a joint operator shall recognise in relation to its interest in a joint operation:

(a) *its assets, including its share of any assets held jointly;*

(b) its liabilities, including its share of any liabilities incurred jointly;

(c) its revenue from the sale of its share of the output arising from the joint operation;

(d) its share of the revenue from the sale of the output by the joint operation; and

(e) Its expenses, including its share of any expenses incurred jointly."

The rights and obligations, as specified in the contractual arrangement, which an entity has with respect to the assets, liabilities, revenue and expenses relating to a joint operation might differ from its ownership interest in the joint operation. Thus a joint operator needs to recognise its interest in the assets, liabilities, revenue and expenses of the joint operation on the basis as specified in the contractual arrangement, rather than in proportion of its ownership interest in the joint operation.

Thus, AB Limited would record the following in its financial statements, to account for its rights to the assets of PQR and its obligations for the liabilities of PQR.

	Rs. in crore
Assets	
Cash (40 x 50%)	20
Building 1*	240
Building 2 (200 x 50%)	100
Liabilities	
Debt owned to XYZ (third party)**	240
Employees benefit plan obligation (100 x 50%)	50

* Since AB Limited has the rights to all of Building No. 1, it records the amount in its entirety.

** AB Limited has an obligation for the debt owed by PQR to XYZ in its entirety.

Q4. (Nov. 20 – IND AS 28)

On 1st April 2019, Investor Ltd. acquired 35% interest in another entity, XYZ Ltd. Investor Ltd. determines that it is able to exercise significant influence over XYZ Ltd. Investor Ltd. has paid total consideration of Rs. 47,50,000 for acquisition of its interest in XYZ Ltd. At the date of acquisition, the book value of XYZ Ltd.'s net assets was Rs. 90,00,000 and their fair value was Rs. 1,10,00,000. Investor Ltd. has determined that the difference of Rs. 20,00,000 pertains to an item of property, plant and equipment (PPE) which has remaining useful life of 10 years.

During the year, XYZ Ltd. made a profit of Rs. 8,00,000. XYZ Ltd. paid a dividend of Rs. 12,00,000 on 31st March, 2020. XYZ Ltd. also holds a long-term investment in equity securities. Under Ind AS, investment is classified as at FVTOCI in accordance with Ind AS 109 and XYZ Ltd. recognized an increase in value of investment by Rs. 2,00,000 in OCI during the year. Ignore deferred tax implications, if any.

Calculate the closing balance of Investor Ltd.'s investment in XYZ Ltd. as at 31st March, 2020 as per the relevant Ind AS.

SOLUTION

Calculation of Investor Ltd.'s investment in XYZ Ltd. under equity method:

	Rs.	Rs.
Acquisition of investment in XYZ Ltd.		
A. Cost of investment	**47,50,000**	
less: Share in book value of XYZ Ltd.'s net assets (35% of Rs. 90,00,000)	31,50,000	
less: Share in fair valuation of XYZ Ltd.'s net assets [35% of (Rs. 1,10,00,000 – Rs. 90,00,000)]	7,00,000	
Goodwill on investment in XYZ Ltd.		**9,00,000**
B. Profit during the year		
Share in the profit reported by XYZ Ltd. (35% of Rs. 8,00,000)	2,80,000	
Adjustment to reflect effect of fair valuation [35% of (Rs. 20,00,000/10 years)] - depreciation on the increased value	(70,000)	
Share of profit in XYZ Ltd. recognised in income by Investor Ltd.		**2,10,000**
C. Long term equity investment		
FVTOCI gain recognised in OCI (35% of Rs. 2,00,000)		70,000
D. Dividend received by Investor Ltd. during the year [35% of Rs. 12,00,000]		(4,20,000)
Closing balance of Investor Ltd.'s investment in XYZ Ltd. (A+B+C+D)		**46,10,000**

MTPs QUESTIONS

Q5. (IND AS-28, APRIL 2018)

QA Ltd. is in the process of computation of the deferred taxes as per applicable Ind AS. QA Ltd. had acquired 40% shares in GK Ltd. for an aggregate amount of Rs. 45 crores. The shareholding gives QA Ltd. significant influence over GK Ltd. but not control and therefore the said interest in GK Ltd. is accounted for using the equity method. Under the equity method, the carrying value of investment in GK Ltd. was Rs. 70 crores on 31st March, 2017 and Rs. 75 crores as on 31st March, 2018. As per the applicable tax laws, profits recognised under the equity method are taxed if and when they are distributed as dividend or the relevant investment is disposed of.

QA Ltd. wants you to compute the deferred tax liability as on 31st March, 2018 and the charge to the Statement of Profit for the same. Consider the tax rate at 20%.

SOLUTION

DTL created on accumulation of undistributed profits as on 31.3.2018

	Carrying value	Value as per tax records	Tax base	Taxable temporary differences	Total Deferred tax liability@ 20%	Charged to P&L during the year
a	b	c	d	E= b-d	F = e x 20%	g
31st March 2017	70 crore	45 crore	45 crore	25 crore	5 crore	5 crore
31st March 2018	75 crore	45 crore	45 crore	30 crore	6 crore	1 crore (6 crore – 5 crore)

Q6. (IND AS-28, APRIL 2019)

Bright Ltd. acquired 30% of East India Ltd. shares for Rs. 2,00,000 on 01-06-20X1. By such an acquisition Bright can exercise significant influence over East India Ltd. During the financial year ending on 31-03-20X1 East India earned profits Rs. 80,000 and declared a dividend of Rs. 50,000 on 12-08-20X1. East India reported earnings of Rs. 3,00,000 for the financial year ending on 31-03-20X2 and declared dividends of Rs. 60,000 on 12-06-20X2.

Calculate the carrying amount of investment in:

(i) Separate financial statements of Bright Ltd. as on 31-03-20X2;

(ii) Consolidated financial statements of Bright Ltd.; as on 31-03-20X2;

(iii) What will be the carrying amount as on 30-06-20X2 in consolidated financial statements?

SOLUTION

Carrying amount of investment in Separate Financial Statement of Bright Ltd. as on 31.03.20X2

	Rs.
Amount paid for investment in Associate (on 1.06.20X1)	2,00,000
(assuming Cost Model followed as per IndAS 27)	
Carrying amount as on 31.3.20X2 as per IndAS 27	**2,00,000**

Carrying amount of investment in Consolidated Financial Statements of Bright Ltd. as on 31.3.20X2 as per Ind AS 28

	Rs.
Carrying amount as per separate financial statements	2,00,000
Less: Divided Received	15,000
Add: Proportionate share of profit of investee as per equity method **(30% x 3,00,000 x 10 / 12)**	75,000
Carrying amount as on 31.3.20X2	2,60,000

Carrying amount of investment in Consolidated Financial Statement of Bright Ltd. as on 30.6.20X2 as per Ind AS 28

	Rs.
Carrying amount as on 31.3.20X2	2,60,000
Less: Dividend received (Rs. 60,000 x 30%)	(18,000)
Carrying amount as on 30.6.20X2	**2,42,000**

Q7. (IND AS 103 & 28 – OCTOBER 2019)

Sumeru Limited holds 35% of total equity shares of Meru Limited, an associate company. The value of Investments in Meru Limited on March 31, 20X1 is Rs. 3 crores in the consolidated financial statements of Sumeru Limited.

Sumeru Limited sold goods worth Rs. 3,50,000 to Meru Limited. The cost of goods sold. is Rs. 3,00,000. Out of these, goods costing Rs. 1,00,000 to Meru Limited were in the closing stock of Meru Limited.

During the year ended March 31, 20X2 the profit and loss statement of Meru Limited showed a loss of Rs. 1 crore.

A. What is the value of investment in Meru Limited as on March 31, 20X2 in the consolidated financial statements of Sumeru Limited, if an equity method is adopted for valuing the investments in associates?

B. Would your answer be different if Meru Limited had earned a profit of Rs. 1.50 crores & declared a dividend of Rs.75 lacs to the equity shareholders of the Company?

SOLUTION

(a) Value of investment in Meru Ltd. as on 31st March, 20X2 as per equity method in the consolidated financial statements of Sumeru Ltd.

	Rs.
Cost of Investment	3,00,00,000
Less: Share in Post-acquisition Loss (1,00,00,000 x 35%)	(35,00,000)
Less: Unrealised gain on inventory left unsold with Meru Ltd.	
[{(50,000/3,00,000) x 1,00,000} x 35%]	(5,833)
Carrying value as per Equity method	**2,64,94,167**

(b) Value of investment in Meru Ltd. as on 31st March, 20X2 as per equity method in the consolidated financial statements of Sumeru Ltd.

	Rs.
Cost of Investment	3,00,00,000
Add: Share in Post-Acquisition Profit (1,50,00,000 x 35%)	52,50,000
Less: Unrealised gain on inventory left unsold with Meru Ltd.	
[{(50,000/3,00,000) x 1,00,000} x 35%]	(5,833)
Less: Dividend (75,00,000 x 35%)	(26,25,000)
Carrying value as per Equity method	**3,26,19,167**

Q8. (IND AS 28 & IND AS 103, MTP – OCT 2020 & EXAM MAY 19)

Deepak Ltd., an automobile group, acquired 25% of the voting ordinary shares of Shaun Ltd., another automobile business, by paying Rs. 4,320 crore on 01.04.2019. Deepak Ltd. accounts its investment in Shaun Ltd. using equity method as prescribed under Ind AS 28. At 31.03.20, Deepak Ltd. recognised its share of the net asset changes of Shaun Ltd. using equity accounting as follows:

(Rs. in crore)

Share of Profit or Loss	378
Share of Exchange difference in OCI	54
Share of Revaluation Reserve of PPE in OCI	27

On 01.04.2020, Deepak Ltd. acquired the remaining 75% of Shaun Ltd. for cash Rs. 13,500 crore. Fair value of the 25% interest already owned was Rs. 4,860 crore and fair value of Shaun Ltd.'s identifiable net assets was Rs. 16,200 crore as on 01.04.2020.

How should such a business combination be accounted for in accordance with the applicable Ind AS?

SOLUTION:

Paragraph 42 of Ind AS 103 provides that in a business combination achieved in stages, the acquirer shall re-measure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate. In prior reporting periods, the acquirer may have recognized changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognised in other comprehensive income shall be recognised on the same basis as would be required if the acquirer had disposed of directly the previously held equity interest.

Applying the above, Deepak Ltd. records the following entry in its consolidated financial statements:

		(Rs. in crore)	
		Debit	Credit
Identifiable net assets of Shaun Ltd.	Dr.	16,200	
Goodwill (W.N.1)	Dr.	2,160	

Foreign currency translation reserve	Dr.	54	
PPE revaluation reserve	Dr.	27	
To Cash			13,500
To Investment in associate (4,320 + 378 +54 + 27)			4,779
To Retained earnings (W.N.2)			27
To Gain on previously held interest in Shaun Ltd. recognised in Profit or loss (W.N.3)			135
(Recognition of acquisition of Shaun Ltd.)			

Working Notes:

1. **Calculation of Goodwill**

	Rs. in crore
Cash consideration	13,500
Add: Fair value of previously held equity interest in Shaun Ltd.	4,860
Total consideration	18,360
Less: Fair value of identifiable net assets acquired	(16,200)
Goodwill	**2,160**

2. The credit to retained earnings represents the reversal of the unrealized gain of Rs. 27 crore in Other Comprehensive Income related to the revaluation of property, plant and equipment. In accordance with Ind AS 16, this amount is not reclassified to profit or loss.

3. **The gain on the previously held equity interest in Shaun Ltd. is calculated as follows:**

	Rs. in crore
Fair Value of 30% interest in Shaun Ltd. at 1st April, 2020	4,860
Carrying amount of interest in Shaun Ltd. at 1st April, 2020 (4320+378+54+27)	(4,779)
	81
Unrealised gain previously recognised in OCI	54
Gain on previously held interest in Shaun Ltd. recognised in profit or loss	**135**

QUESTIONS FROM PAST EXAM PAPERS

Q9. (Nov. 20 – 6 Marks)

Entity H holds a 20% equity interest in Entity S (an associate) that in turn has a 100% equity interest in Entity T. Entity S recognised net assets relating to Entity T of ₹ 10,000 in its consolidated financial statements. Entity S sells 20% of its interest in Entity T to a third party (a non-controlling shareholder) for ₹ 3,000 and recognises this transaction as an equity transaction in accordance with the provisions of Ind AS 110, resulting in a credit in Entity S's equity of ₹ 1,000.

The financial statements of Entity H and Entity S are summarised as follows before and after the transaction:

Before				
H's consolidated financial statements				
Assets	**(₹)**	**Liabilities**	**(₹)**	
Investment in S	2,000	Equity	2,000	
Total	**2,000**	Total	**2,000**	
S's consolidated financial statements				
Assets	**(₹)**	**Liabilities**	**(₹)**	
Assets (from T)	10,000	Equity	10,000	
Total	**10,000**	Total	**10,000**	
After				
S's consolidated financial statements				
Assets	**(₹)**	**Liabilities**	**(₹)**	
Assets (from T)	10,000	Equity	10,000	
Cash	3,000	Equity transaction Impact with non-controlling interest	1,000	
		Equity attributable to owners		11,000
		Non-controlling' interest		2,000
Total	**13,000**	**Total**		**13,000**

Although Entity H did not participate in the transaction, Entity H's share of net assets in Entity S increased as a result of the sale of S's ' 20% interest in T. Effectively, H's share in S's net assets is now ₹ 2,200 (20% off ₹ 11,000) i.e., ₹ 200 in addition to its previous share.

How is this equity transaction that is recognised in the financial statements of Entity S reflected in the consolidated financial statements of Entity H that uses the equity method to account for its investment in Entity S?

SOLUTION

Ind AS 28 defines the equity method as "a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post -acquisition change in the investor's share of the investee's net assets. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income."

Ind AS 28, states, inter alia, that when an associate or joint venture has subsidiaries, associates or joint ventures, the profit or loss, other comprehensive income, and net assets taken into account in applying the equity method are those recognised in the associate's or joint venture's financial statements (including the associate's or joint venture's share of the profit or loss, other comprehensive income and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies.

The change of interest in the net assets / equity of the associate as a result of the investee's equity transaction is reflected in the investor's financial statements as 'share of other changes in equity of investee' (in the statement of changes in equity) instead of gain in Statement of profit and loss, since it reflects the post-acquisition change in the net assets of the investee as per the provisions of Ind AS 28 and also faithfully reflects the investor's share of the associate's transaction as presented in the associate's consolidated financial statements.

Thus, in the given case, Entity H recognizes Rs 200 as change in other equity instead of in statement of profit and loss and maintains the same classification as of its associate, Entity S, i.e., a direct credit to equity as in its consolidated financial statements.

Newly added Question in Latest ICAI Module for May 22 Attempt

Q10. (ICAI Module)

On 1st April 20X1 Alpha Ltd. commenced joint construction of a property with Gama Ltd. For this purpose, an agreement has been entered into that provides for joint operation and ownership of the property. All the ongoing expenditure, comprising maintenance plus borrowing costs, is to be shared equally. The construction was completed on 30th September 20X1 and utilization of the property started on 1st January 20X2 at which time the estimated useful life of the same was estimated to be 20 years.

Total cost of the construction of the property was Rs 40 crores. Besides internal accruals, the cost was partly funded by way of loan of Rs 10 crores taken on 1st January 20X1. The loan carries interest at an annual rate of 10% with interest payable at the end of year on 31st December each year. The company has spent Rs 4,00,000 on the maintenance of such property.

The company has recorded the entire amount paid as investment in Joint Venture in the books of accounts. Suggest the suitable accounting treatment of the above transaction as per applicable Ind AS.

SOLUTION:

As provided in Ind- AS 111 - Joint Arrangements - this is a joint arrangement because two or more parties have joint control of the property under a contractual arrangement. The arrangement will be regarded as a joint operation because Alpha Ltd. and Gama Ltd. have rights to the assets and obligations for the liabilities of this joint arrangement. This means that the company and the other investor will each recognise 50% of the cost of constructing the asset in property, plant and equipment.

The borrowing cost incurred on constructing the property should, under the principles of Ind AS 23 'Borrowing Costs', be included as part of the cost of the asset for the period of construction.

In this case, the relevant borrowing cost to be included is Rs 50,00,000 (Rs 10,00,00,000 x 10% x 6/12).

The total cost of the asset is Rs 40,50,00,000 (Rs 40,00,00,000 + Rs 50,00,000)

Rs 20,25,00,000 crores is included in the property, plant and equipment of Alpha Ltd. and the same amount in the property, plant and equipment of Gama Ltd.

The depreciation charge for the year ended 31 March 20X2 will therefore be Rs 1,01,25,000 (Rs 40,50,00,000 x 1/20 x 6/12) Rs 50,62,500 will be charged in the statement of profit or loss of the company and the same amount in the statement of profit or loss of Gama Ltd.

The other costs relating to the arrangement in the current year totaling Rs 54,00,000 (finance cost for the second half year of Rs 50,00,000 plus maintenance costs of Rs 4,00,000) will be charged to the statement of profit or loss of Alpha Ltd. and Gama Ltd. in equal proportions- Rs 27,00,000 each.