AS 23
ACCOUNTING FOR INVESTMENTS IN ASSOCIATES
IN CONSOLIDATED FINANCIAL STATEMENTS
Objective & Scope

Objective of AS 23 is to set out principles and procedures for recognising the effects of the investments in associates in consolidated financial statements.

Scope

- AS 23 is applied in accounting for investments in associates in the preparation and presentation of consolidated financial statements by an investor.
- It does not deal with accounting for investments in associates in the preparation and presentation of separate financial statements by an investor (AS 13).
### DEFINITIONS

- **An **associate** is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor.

- **Significant influence** is the power to participate in the financial and/or operating policy decisions of the investee but not control over those policies.

- **Equity method** is a method of accounting whereby the investment is initially recorded at cost, identifying any goodwill/capital reserve arising at the time of acquisition.
  - The carrying amount of the investment is adjusted thereafter for post-acquisition change in the investor’s share of net assets of the investee.
  - Consolidated statement of profit and loss reflects the investor’s share of the results of operations of the investee.
### EQUITY METHOD

- An investment in an associate is accounted for under **equity method**

- **Exceptions** (accounted for under AS 13)
  - Investment is acquired and held exclusively with a view to its subsequent disposal in near future
  - Associate operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor

- **Discontinuation of equity method** (subsequent accounting under AS 13)
  - Associate ceases to have significant influence in an associate but retains, either in whole or in part, its investment
  - It operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor
APPLICATION OF EQUITY METHOD

- Goodwill/capital reserve on acquisition of associate is included in carrying amount of investment in associate, but disclosed separately.
- Unrealised profits and losses resulting from transactions between the investor (or its consolidated subsidiaries) and the associate should be eliminated to the extent of the investor’s interest in the associate- unrealised losses should not be eliminated if and to the extent the cost of the transferred asset cannot be recovered.
- Carrying amount of investment in associate should be reduced to recognise a decline, other than temporary, in the value of the investment, such reduction being determined and made for each investment individually.
- Consolidated financial statements should be drawn up to the same reporting date (unless impracticable).
- Consolidated financial statements should be prepared using uniform accounting policies (unless impracticable).
• Appropriate listing and description of associates including proportion of ownership interest and, if different, the proportion of voting power held
• Investments in associates is classified as long-term investments and disclosed separately- investor’s share of profits or losses of such investments is also disclosed separately
• Name(s) of the associate(s) of which reporting date(s) is/ are different from that of financial statements of an investor and differences in reporting dates
• Fact of impracticability to make appropriate adjustments to associate’s financial statements (where uniform accounting policy is not followed) along with a brief description of differences in accounting policies
• Reasons for not applying equity method in accounting for investments in associate
• Goodwill/ capital reserve arising on acquisition of associate
Thank You

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