

Accounting for investment assets

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AABE

Accounting and Audit Board of Ethiopia
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Aim

- » Understand accounting for investment assets through:
 - » **understanding** of the economics of investment assets
 - » **understanding** of how investment assets are classified
 - » **understanding** of the accounting specified for investment assets
 - » **appreciation** of the judgements in applying accounting policies for investment assets

The background is a solid red color with a complex, low-poly geometric pattern of various shades of red, creating a textured, crystalline effect.

Classifying investment assets



What is an asset? definitions of an asset

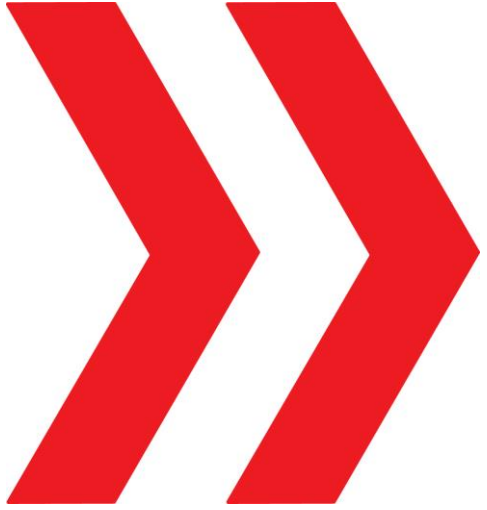
- » IASB's Conceptual Framework (see paragraph 4.4(a))
 - » “resource controlled by the entity...economic benefits are expected”
- » IASB's ED/2015/3 Conceptual Framework (paragraphs 4.5 and 4.6)
 - » “present economic resource controlled by the entity...”
 - » “An economic resource is a right that has the potential to provide future economic benefits.”



Asset types

does sub-classification enhance predictive value?

» “Different types of economic resources affect a user’s assessment of the reporting entity’s prospects for future cash flows differently” (paragraph OB14 of the Conceptual Framework)



Degrees of influence

Degree of influence over 'investees'

° of influence

Definitions

Control

IFRS 10: An investor controls an investee when the investor:

- (i) has power over the investee;
- (ii) is exposed, or has rights, to variable returns from its involvement with the investee; and
- (iii) has the ability to affect those returns through its power over the investee.

IFRS for SMEs: control is the ability to direct the financial and operating policies of the investee.

Joint control

IFRS for SMEs: joint control is the contractually agreed sharing of control.

Significant influence

IFRS and the IFRS for SMEs: significant influence is the ability to participate in the financial and operating policies of the investee.



Assessing significant influence

Consider all facts and circumstances when determining whether significant influence exists.

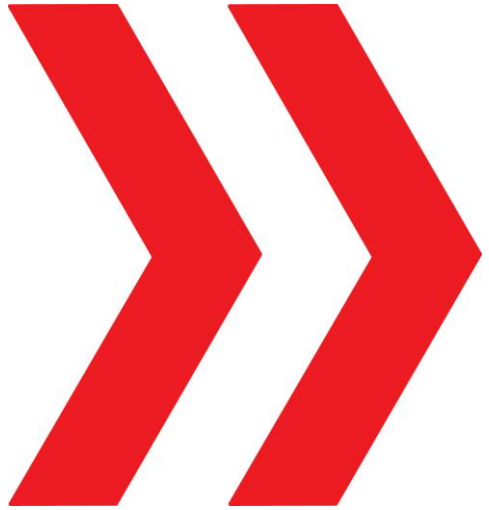
For example:

- » potential voting rights
- » representation on the board of directors or equivalent governing body
- » participation in policy-making processes, including participation in decisions about dividends or other distributions
- » material transactions between the investor and the investee
- » providing essential technical information
- » interchange of managerial personnel



Assessing significant influence (SI) application guidance

- » Significant influence is presumed to exist if investor holds, directly or indirectly, $\geq 20\%$ of voting power of associate
 - » unless clearly demonstrates this is not the case
- » conversely, if the investor holds $< 20\%$...
- » a majority ownership by another investor does not preclude an investor from having significant influence



IFRS investment types

IFRS investment asset types defined categories

Classification	Purpose to which put, ie held for...	Nature
Investment Property (IAS 40 and Sections 16 and 17 of the IFRS for SMEs)	...capital appreciation or rental to others, or both. (Property-by-property option to include property interests held by a lessee under an operating lease provided: (i) they otherwise meets the definition of IP; and (ii) the lessee can measure the fair value of the property interest reliably (for IFRS for SMEs without undue cost or effort on an ongoing basis).	land/buildings/some leasehold interests
IFRS 5 <i>Non-current Asset Held for Sale</i> (not applicable to IFRS for SMEs)	...carrying amount will be recovered principally through sale transaction	non-current assets

IFRS financial asset types defined categories

Classification	Nature
Financial asset (IFRS 9/IAS 39 and Sections 11 and 12 of the IFRS for SMEs)	<ul style="list-style-type: none">• cash• a contractual right to receive cash or another financial asset• a contractual right to exchange financial assets or liabilities with another entity on potentially favourable terms• an equity instrument (for example, plain vanilla ordinary shares of another entity).

IFRS financial asset types defined categories

Classification	Nature
Investments in associates (IAS 28 and Section 14 of the IFRS for SMEs)	Associate: an entity over which the reporting investor exerts significant influence (ie power to participate in the financial and operating policy decisions of the investee but not control or joint control of those policies).
Joint ventures (IFRS 11) and jointly controlled entities (Section 15 of the IFRS for SMEs)	IFRS 11: joint venture: a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Section 15 of the IFRS for SMEs: a jointly controlled entity are joint ventures (contractually agreed sharing of control) that involves the establishment of a corporation, partnership or other entity in which each venturer (party to the contractually agreed sharing of control) has an interest.

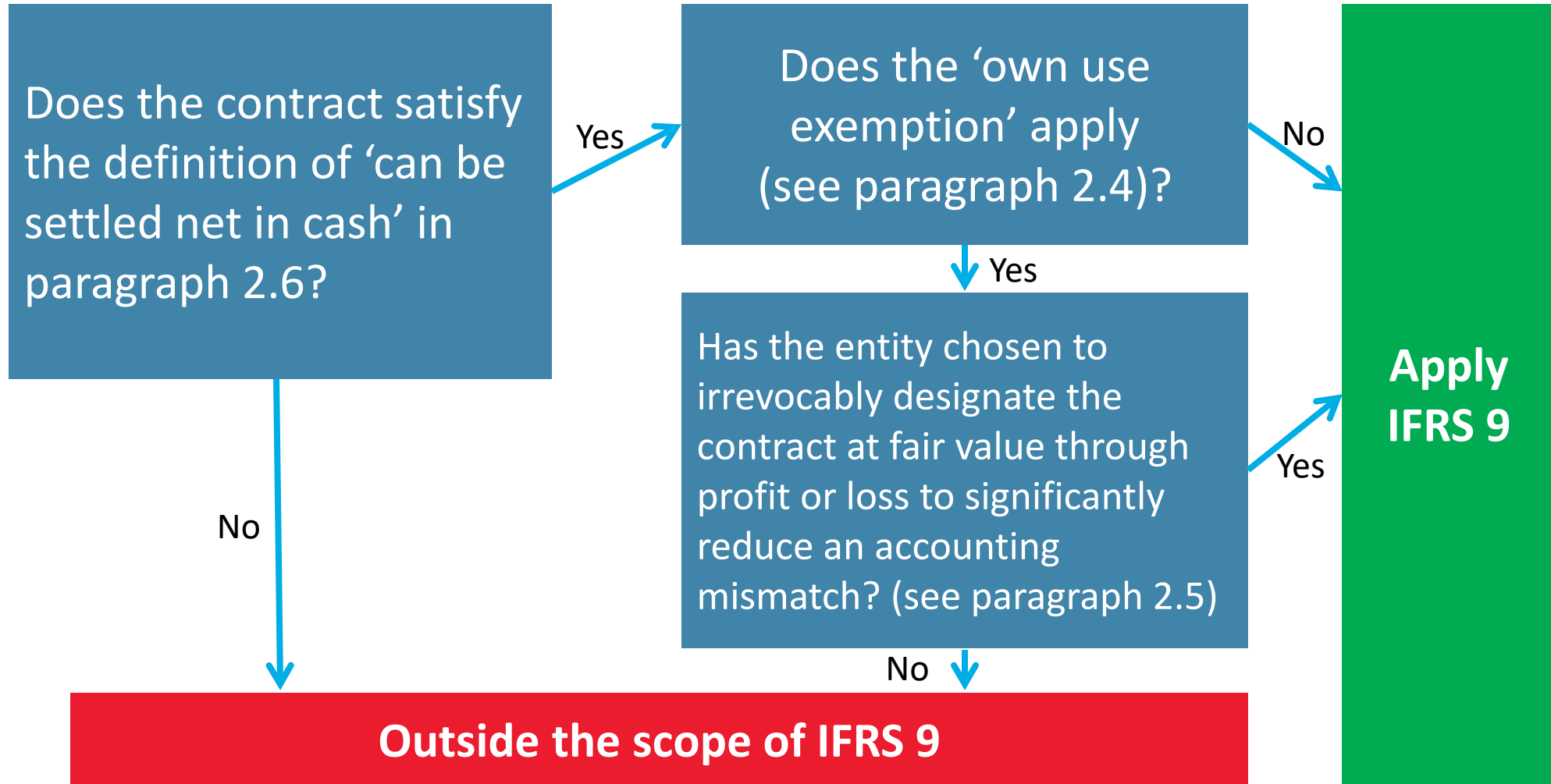


Financial asset

IFRS 9 applies to all financial instruments except...

- » interests in subsidiaries, associates and joint ventures (IFRS 10, IAS 27, IAS 28)
- » rights and obligations under leases (IAS 17)
- » employee benefits (IAS 19)
- » own equity instruments (IAS 32)
- » insurance contracts (IFRS 4)
- » forward contracts that will result in a business combination (IFRS 3)
- » loan commitments – except:
 - » those designated at fair value through profit or loss
 - » loan commitments that can be settled net in cash or by delivering or issuing another financial instrument
 - » commitments to provide a loan at a below-market interest rate
- » share-based payment transactions (IFRS 2)
- » rights to payments to reimburse the entity for expenditure required to settle a liability recognised as a provision (IAS 37)
- » rights and obligations within the scope of IFRS 15 *Revenue from Contracts with Customers* that are financial instruments

Classifying contracts to buy or sell non-financial items





IFRS asset types

test your understanding (slide 1 of 5 slides)

For each of the following investment assets, which Standard specifies accounting?

Choose 1 of:

- (i) financial asset (IFRS 9 or IAS 39/Sections 11 and 12 of the IFRS for SMEs);
- (ii) investment in associate (IAS 28/Section 14 of the IFRS for SMEs);
- (iii) investment in joint venture (IAS 28/Section 15 of the IFRS for SMEs);
- (iv) investment property (IAS 40/Sections 16 and 17 of the IFRS for SMEs);
- (v) non-current asset held for sale (IFRS 5); or
- (vi) other (specify).



Test your understanding test your understanding (slide 2 of 5 slides)

- A. ETB10 million cash (functional currency)
- B. £1 million cash (foreign currency)
- C. 1,000 Apple Inc shares (trade on New York stock exchange)
- D. 1,000 Awash Bank share company
- E. 10 x ETB5,000 tranches of 182-day Ethiopian Government Treasury Bills (ETB denominated; bearing fixed rate interest)
- F. ETB10 million 10-year EEPKO Millennium Corporate Bond (ETB denominated; 5% fixed interest paid annually in arrears tax free; matures 2018; transferable to a qualifying second party)
- G. £10,000 10-year Grand Renaissance Dam Bond (GBP denominated; interest = LIBOR +2% paid six monthly tax free; matures 2022; transferable to up to three qualifying people)



IFRS asset types test your understanding (slide 3 of 5 slides)

- A. Trade receivable
- B. Hotel building
 - » **Scenario 1:** owner operates hotel business
 - » **Scenario 2:** rented to a international hotel group (fixed rentals)
 - » **Scenario 3:** subject to hotel management agreement (fixed and variable rentals)
- C. An investment property that senior management has committed to a plan to sell
- D. One million ounces of gold held as a store of wealth



IFRS asset types

test your understanding (slide 4 of 5 slides)

- A. Leasehold interest in land: Entity is lessee under a 20 year lease; and Entity is lessor under a 5 year lease
- B. Leasehold interest in building: Entity is lessee under a 20 year lease (operating lease); and Entity is lessor under a 5 year lease



IFRS asset types

test your understanding (slide 5 of 5 slides)

- A. An 'in the money' contract to exchange (pay) ETB23 million for (receive) \$1 million that must be settled net in cash on 31 December 2016
- B. An 'in the money' contract to exchange (pay) ETB23 million for (receive) \$1 million that must be settled on 31 December 2016 by physical delivery
- C. An 'in the money' contract to exchange (pay) a fixed quantity of coffee beans of a specified quality for (receive) a fixed amount of cash that must be settled net in cash on 31 December 2016

The background is a solid red color with a complex, low-poly geometric pattern of various triangles and polygons in different shades of red, creating a textured, crystalline effect.

Accounting for investment assets

Degree of influence over 'investees'

IFRS 'primary' financial statements

° of influence	IFRS accounting	IFRS 12
Control	Account for assets (ie <u>controlled</u> resources) and claims against those assets (see IFRS 10 <i>Consolidated Financial Statements</i>) using IFRSs	Exception for investment entities: ✓
Joint control (joint arrangements)	Joint operation: account for assets (<u>the controlled resources</u>) and liabilities (<u>the present obligations</u>) (see IFRS 11 <i>Joint Arrangements</i>) using IFRSs	account for investment 'assets' (rather than the underlying controlled resources etc) ✓
	Joint venture: account for investment asset (<u>the controlled resource</u>) using the equity method in accordance with IAS 28	using the fair value model ✓
Significant influence	Account for investment asset (<u>the controlled resource</u>) using the equity method in accordance with IAS 28	✓
Less than significant	Account for investment asset (<u>the controlled resource</u>) using the fair value model in accordance with IFRS 9 <i>Financial Instruments</i>	✗

Degree of influence over 'investees'

IFRS for SME 'primary' financial statements

° of influence

IFRS for SMEs accounting

Control

Account for assets (ie controlled resources) and claims against those assets (see Section 9 Consolidated and Separate Financial Statements) using applicable Sections of the IFRS for SMEs

Joint control (joint arrangements)


Joint assets and jointly controlled operations: account for own assets and share of joint assets (the controlled resources) and liabilities and share of joint liabilities (the present obligations) (see Section 15 *Investments in Joint Ventures*) using applicable Sections of the IFRS for SMEs

Significant influence

Jointly controlled entities (see Section 15 *Investments in Joint Ventures*) and Associates (see Section 14 *Investments in Associates*) account for investment asset (the controlled resource?) using: (i) the cost model; (ii) the fair value model; (iii) or the equity method as described in Section 14

Less than significant

Account for investment asset (the controlled resource) using the fair value model or, ONLY if fair value cannot be measured reliably without undue cost or effort, using the cost model (see paragraph 11.4)



IFRS versus IFRS for SMEs what do you think?

- » IFRS and the IFRS for SMEs have different requirements for accounting for joint arrangements. **Which is conceptually superior?** Why the difference?
- » An investment entity is an entity that:
 - » obtains funds from **one or more investors** for the purpose of providing those investor(s) with **investment management services**;
 - » commits to its investor(s) that its business purpose is to **invest funds solely for returns from capital appreciation, investment income**, or both; and
 - » measures and evaluates the performance of substantially all of its investments on a **fair value basis**.
- » IFRS provides an exception from consolidation for investment entities. The IFRS for SMEs does not. **Which is conceptually superior?** Why the exception?

Separate financial statements IFRS and IFRS for SMEs

Degree of influence	Accounting for 'investment' asset
Control (subsidiaries)	Choose from any of:
Joint control (joint arrangements: joint operations and joint ventures)	(i) cost; (ii) equity method; or (iii) fair value. Can make different choice for each of subsidiaries, joint ventures and associates
Significant influence (associates)	
Less than significant influence	Same accounting as used in 'primary' financial statements

Are separate financial statements consistent with the concepts in the IASB Conceptual Framework?

Investment asset measurement: at initial recognition

Measurement	Item	References
Historical cost	Investment property , investment in associates and joint ventures (equity method)	IASs 28 and 40; and Sections 14, 15 and 16 of the IFRS for SMEs
Fair value	Financial instruments , other assets when acquired in business combinations or in a separate transaction in exchange for another non-financial asset (for example, investment property)	IFRSs 3 and 9; and Sections 11, 12 and 19 of the IFRS for SMEs

Investment asset measurement: after initial recognition?

Cost-based models	Item	References
Historical cost	Investment property indefinite land use right (IFRS alternative; IFRS for SMEs circumstance dependent) and financial assets (undue cost or effort exemption from fair value)	IAS 40; and Sections 11, 12 and 16 of the IFRS for SMEs
Cost model	Depreciable unimpaired investment property (IFRS alternative; IFRS for SMEs circumstance dependent)	IAS 40; and Section 16 of the IFRS for SMEs
Amortised cost	IFRS financial assets whose contractual cash flows are solely principle and interest that are held to collect contractual cash flows (similar for IFRS for SMEs)	IFRS 9; and Sections 11 and 12 of the IFRS for SMEs

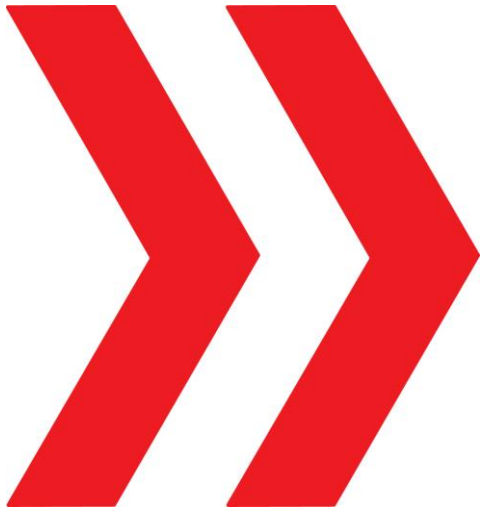
Asset measurement: after initial recognition?

Market price–based measurements	Item	References
Fair value	Financial assets (held for trading or whose contractual cash flows are not SPPI), investment property (alternative in IFRS; circumstance driven in IFRS for SMEs) and investment entities (IFRS only)	IFRSs 9 & 10 and IAS 40; and Sections 11, 12 and 16 of the IFRS for SMEs

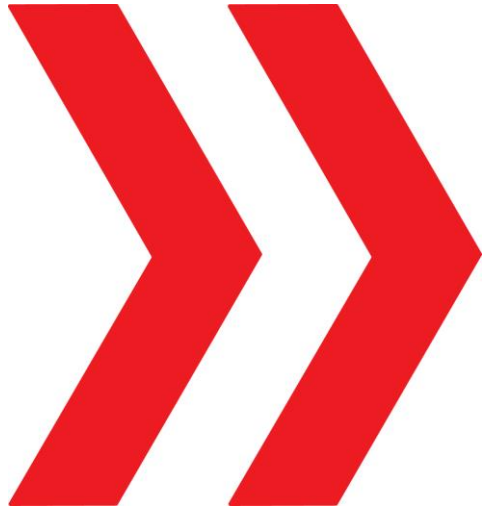


Asset measurement: after initial recognition?

Mixed measurements	Item	References
The equity method	Investments in associates and joint ventures	IAS 28 and Sections 14 and 15 of the IFRS for SMEs
Hedge accounting	The hedged item in a fair value hedge (adjusted for the effect of the hedged risk only)	IFRS 9 and Section 12 of the IFRS for SMEs

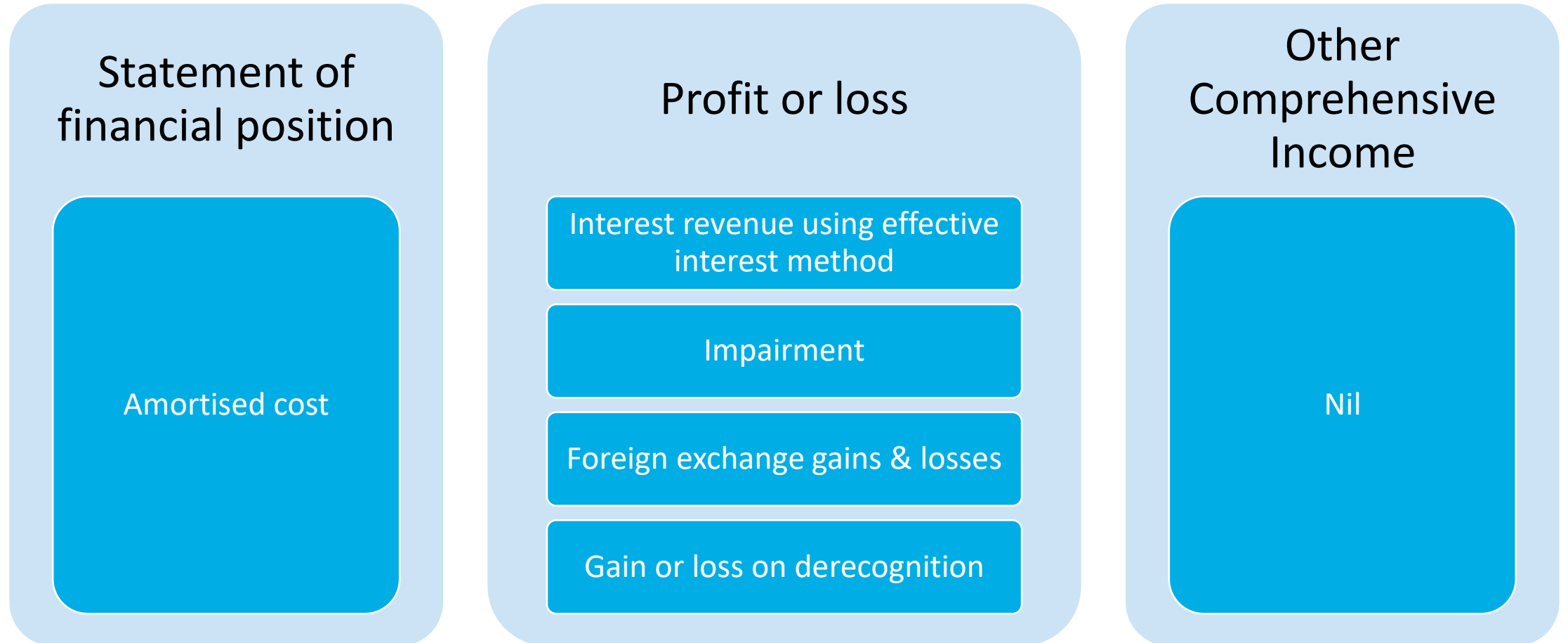


Measuring fair value of
non-financial assets (eg,
investment property) and
financial assets
(see separate session on
Day 2)



Amortised cost of
financial assets

Subsequent measurement of financial asset amortised cost





Amortised cost: a financial asset example: bank deposit

- » On 1 January 2014 deposited ETB1,000,000 in a commercial bank.
- » The bank promises to pay the entity ETB1,210,000 on 1 January 2016
 - » in other words, effective interest rate (IRR) = 10%

Amortised cost: a financial asset journal entries example bank deposit

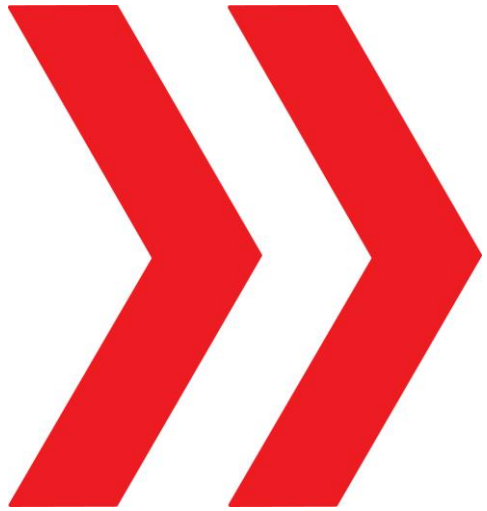
Date	Account (element: classification)	Debit	Credit
01/01/2014	Asset: bank fixed deposit	1,000,000	
	Asset: cash		1,000,000
31/12/2014	Asset: bank fixed deposit	100,000	
10% x ETB1,000,000	Income: interest		100,000
31/12/2015	Asset: bank fixed deposit	110,000	
10% x ETB1,100,000	Income: interest		110,000
01/01/2016	Asset: cash	1,210,000	
ETB1,000,000 + ETB100,000 + ETB110,000	Asset: bank fixed deposit		1,210,000



Amortised cost: financial asset example: fixed rate corporate bond

- » On 1 January 2014 Entity pays ETB385,543 to buy a 'fixed-rate' corporate bond that promises to pay ETB1,000,000 on 31 December 2023 (in 10 years)
 - » in other words, effective interest rate (IRR) = 10%
- » On 2 January 2014 the corporate's credit rating is upgraded
 - » its borrowing rate decreases to 5%
 - » the fair value of the bond increases to ETB613,913

Note: even though the fair value of the bond changed on 2 January 2014 (and the financial asset could then be sold for ETB613,913 its amortised cost does not reflect the change in its fair value because the amount and timing of the cash outflow (ETB1,000,000) remains unchanged.



Financial (monetary)
asset denominated in a
foreign currency



Financial asset denominated in a foreign currency

Foreign currency denominated monetary item	Standards
<ul style="list-style-type: none">• Classify the financial asset in accordance with IFRS (for example IFRS 9) or the IFRS for SMEs assessing the variability of future cash flows in the currency in which the instrument is denominated.• Initial recognition: measure asset in functional currency by applying to the foreign currency amount the spot exchange rate at the date of initial recognition (per, for example, IFRS 9).• End of each reporting period: translate closing foreign currency denominated monetary items using closing spot exchange rate (monetary item).	<p>Section 30 applies in addition to Sections 11/12 of the IFRS for SMEs;</p> <p>IAS 21 applies in addition to IFRS 9/IAS 39</p>

Example: investment in foreign currency denominated fixed-rate debt instrument (an asset)

- » 1 January 2015 Entity invests F\$100,000 in a corporate bond with the following contractual cash flow:
 - » on 1 January 2018: F\$106,121 (redemption capital and interest)
- » Changes in market interest rates and spot exchange rates result in fair value changes:

	01/01/2015	31/12/2015	31/12/2016	31/12/2017
F\$ market interest rate	2%	10%	1%	irrelevant
F\$ denominated fair value	F\$100,000	F\$87,703	F\$105,070	F\$106,121
Exchange rate	ETB20:F\$1	ETB21:F\$1	ETB22:F\$1	ETB23:F\$1
Fair value (ETB)	ETB2,000,000	ETB1,841,763	ETB2,311,540	ETB2,440,783

**Example: investment in foreign currency
denominated fixed-rate debt instrument (an
asset)**

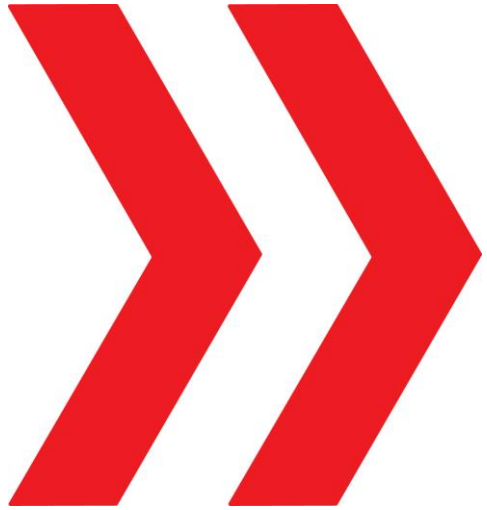
Scenario 1: amortised cost accounting

Date	F\$ 'carrying amount' of asset	Exchange rate	ETB carrying amount of asset	Finance income (ETB)	Currency exchange gain income (ETB)
01/01/2015	100,000	ETB20:F\$1	2,000,000		
Profit or loss	2,000	ETB20.5:F\$1		41,000	101,000
31/12/2015	102,000	ETB21:F\$1	2,142,000		
Profit or loss	2,040	ETB21.5:F\$1		43,860	103,020
31/12/2016	104,040	ETB22:F\$1	2,288,880		
Profit or loss	2,081	ETB22.5:F\$1		46,823	105,080
31/12/2017	106,121	ETB23:F\$1	2,440,783		

**Example: investment in foreign currency
denominated fixed-rate debt instrument (an
asset)**

Scenario 2: fair value accounting

Date	F\$ 'carrying amount' of asset	Exchange rate	ETB carrying amount of asset	Change in fair value (expense)/income (ETB)
01/01/2015	100,000	ETB20:F\$1	2,000,000	
Profit or loss				(158,237)
31/12/2015	87,703	ETB21:F\$1	1,841,763	
Profit or loss				469,777
31/12/2016	105,070	ETB22:F\$1	2,311,540	
Profit or loss				129,243
31/12/2017	106,121	ETB23:F\$1	2,440,783	



Non-monetary asset
denominated in a foreign
currency

Example: investment in foreign currency denominated fixed-rate debt instrument (an asset)

- » 1 January 2015 Entity invests F\$100,000 in land in a foreign country with a view to capital appreciation.
- » Changes in foreign country land prices and spot exchange rates result in fair value changes:

	01/01/2015	31/12/2015	31/12/2016	31/12/2017
F\$ denominated fair value	F\$100,000	F\$87,703	F\$105,070	F\$106,121
Exchange rate	ETB20:F\$1	ETB21:F\$1	ETB22:F\$1	ETB23:F\$1
Fair value (ETB)	ETB2,000,000	ETB1,841,763	ETB2,311,540	ETB2,440,783
F\$ denominated rental		F\$2,000	F\$2,040	F\$2,081
Exchange rate		ETB20.5:F\$1	ETB21.5:F\$1	ETB22.5:F\$1

Example:

investment in foreign currency denominated
land (an asset)

Scenario 1: cost accounting

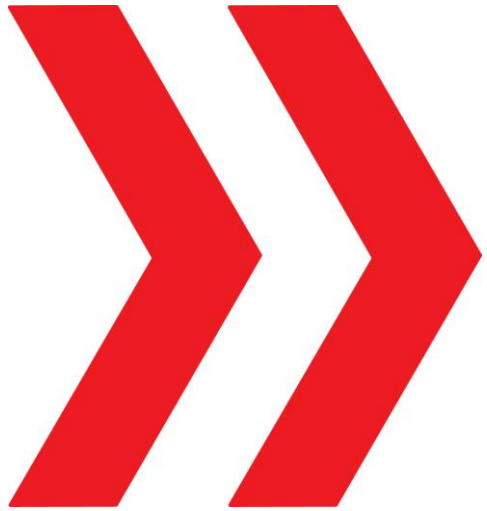
Date	F\$ 'carrying amount' of asset	Exchange rate	ETB carrying amount of asset	Rental income (ETB)	Currency exchange gain income
01/01/2015	100,000	ETB20:F\$1	2,000,000		
Profit or loss: rent	2,000	ETB20.5:F\$1		41,000	0
31/12/2015	100,000	ETB20:F\$1	2,000,000		
Profit or loss: rent	2,040	ETB21.5:F\$1		43,860	0
31/12/2016	100,000	ETB20:F\$1	2,000,000		
Profit or loss: rent	2,081	ETB22.5:F\$1		46,823	0
31/12/2017	100,000	ETB20:F\$1	2,000,000		

**Example:**


investment in foreign currency denominated
land (an asset)

Scenario 2: fair value accounting

Date	F\$ 'carrying amount' of asset	Exchange rate	ETB carrying amount of asset	Rental income (ETB)	Change in fair value (expense)/ income (ETB)
01/01/2015	100,000	ETB20:F\$1	2,000,000		
Profit or loss		ETB20.5:F\$1		41,000	(158,237)
31/12/2015	87,703	ETB21:F\$1	1,841,763		
Profit or loss		ETB21.5:F\$1		43,860	469,777
31/12/2016	105,070	ETB22:F\$1	2,311,540		
Profit or loss		ETB22.5:F\$1		46,823	129,243
31/12/2017	106,121	ETB23:F\$1	2,440,783		




Investment property:
change from the cost
model to the fair value
model




Example: investment property change from the cost model to the fair value model

- » On 1 January 2004 Entity acquired an investment property (building) for ETB100 million.
- » To 31 December 2010 it accounts for the building using the **cost model**.
 - » Depreciates straight-line over 50 years to nil residual value.
- » From 1 January 2014 it accounts for the building using the **fair value model**. The fair value of the building at the end of:
 - » 2012 = ETB150 million; 2013 = ETB180 million; 2014 = ETB160 million
- » Rental agreement 2013 to 2017 = ETB20 million rent per year



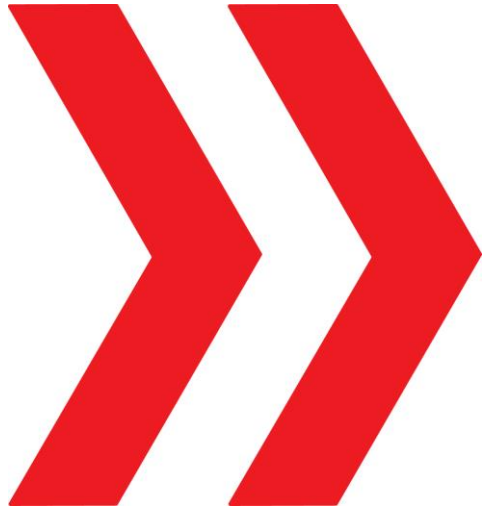
Example: investment property change from the cost model to the fair value model

- » What judgement would Entity have made to change from using the cost model to the fair value model on 1 January 2014?
 - » Scenario A: Entity uses **IFRS**
 - » Scenario B: Entity uses the **IFRS for SMEs**
- » At what amount the investment property be presented in Entity's 31 December 2014 statement of financial position (including comparative figure for 2013)
 - » Scenario A: Entity uses **IFRS**
 - » Scenario B: Entity uses the **IFRS for SMEs**



Example: investment property change from the cost model to the fair value model

- » At what amount the performance of the investment property be presented in Entity's statement of comprehensive income for the year ended 31 December 2014 (including comparative figure for 2013)?
 - » Scenario A: Entity uses **IFRS**
 - » Scenario B: Entity uses the **IFRS for SMEs**
- » Are the lease rentals specified in the rental agreement (ie 2013 to 2017 = ETB20 million rent per year) relevant to measuring the fair value of the building?




The equity method



Equity method the basic model

- » At initial recognition of an equity investment:
 - » investor/joint venturer measures investment in associate/joint venture at the transaction price (including transaction costs)
- » Subsequently measurement reflects the investor's/joint venturer's share of:
 - » the profit or loss and other comprehensive income of the associate/joint venture
 - » other changes in the equity of the associate/joint venture
 - » for example, distributions received from the associate/joint venture



The equity method basic example

- » On 1 January 20x1 Entity A incurred \$2,000 transactions costs when it acquired **25%** of Entity Z's equity for \$200,000
 - » for simplicity, assume no implicit goodwill and no fair value adjustments
- » Entity Z's profit for 20x1 = \$100,000
- » On 31 December 20x1 Entity Z declares a dividend of \$120,000
- » At 31 December 20x1 the recoverable amount of Entity A's investment in Entity Z = \$190,000
 - » (ie fair value of \$195,000 less cost to sell \$5,000)



The equity method basic example continued

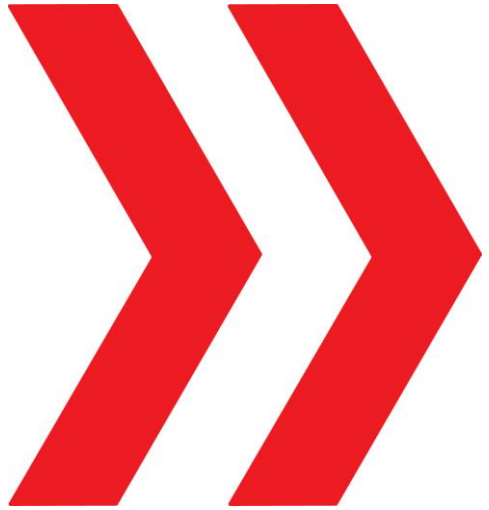
What is the (equity method) carrying amount of Entity A's investment in Entity Z at 31 December 20x1? Choose one of:

- 1) \$190,000;
- 2) \$195,000;
- 3) \$200,000;
- 4) \$202,000;
- 5) \$225,000; or
- 6) \$227,000.



Equity method judgements and estimates

- » Some of the judgements and estimates involved in accounting for investments using the equity method arise from:
 - » (before that) determining whether the reporting investor exerts significant influence
 - » the effects of potential voting rights
 - » identifying implicit goodwill and fair value adjustments on underlying assets, liabilities and contingent liabilities of the investee
 - » estimating the ‘unrealised profit’ in transactions between the investor/venturer and the associate/joint venture
 - » adjusting for the effects of transactions between the reporting date/period of associate/joint venture and that of the reporting investor
 - » adjusting for differences between the associate’s/joint venture’s accounting policies and those of the investor



Investment entities



What is an investment entity?

An investment entity is an entity that:

- » obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
- » commits to its investor(s) that its business purpose is to invest funds **solely** for returns from capital appreciation, investment income (dividends, interest and rentals) or both; and
- » measures and evaluates the performance of substantially all of its investments on a fair value basis.



Investment entities: exception to consolidation principle

- » Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, introduced an exception to the principle that all subsidiaries shall be consolidated.
 - » Investment entities measure investments in subsidiaries at fair value through profit or loss (in accordance with IFRS 9 *Financial Instruments*) instead of consolidating those subsidiaries (except for subsidiaries providing investment-related services).
 - » *Disclosure requirements related to investment entities are in IFRS 12 Disclosure of Interests in Other Entities.*



Business purpose of an investment entity

- » **Purpose** = capital appreciation, investment income or both
- » It may provide investment-related services (directly or through a subsidiary) to third parties as well as to its investors
 - » management services/strategic advice and financial support to maximise the investment return (not separate business activity or a substantial source of income)
 - » If a subsidiary provides such investment related services: **consolidate that subsidiary**
- » Investment entities hold investment for a limited period (ie an exit strategy must exist for any investment that can be held indefinitely)



Typical characteristics of an investment entity

- » More than one investment
- » More than one investor
- » Unrelated investors
- » Ownership interests



Example 1: * investment entities what do you think?

- » Limited Partnership: formed in 20x1 with a 10-year life.
- » Offering memo states purpose as to invest in entities with rapid growth potential with the objective of realising capital appreciation.
- » General Partner (GP) = 1% of capital; 75 partners (unrelated to GP) = remaining 99% of capital.
- » 20x1 → no investment; 20x2 → one controlling interest; 20x3 → investment in five additional companies.
- » No other activities other than **investing**.
- » Measures and evaluates investments in **fair value basis**.
- » **Plan** to dispose of interests.

Is Limited Partnership and investment entity?

Choose one of: 1) Yes; or 2) No.



Example 2: * investment entities what do you think?

- » High Technology Fund (HT Fund) → invest in technology start-up companies for capital appreciation.
- » Technology Corporation (TC) controls HT Fund (70% interest); remaining 30% owned by 10 unrelated investors.
- » TC holds option to acquire investments from HT Fund.
- » No plans for exiting investments.
- » HT Fund is managed by an adviser that acts as agent for the investors.

Is HT Fund and investment entity?

Choose one of: 1) Yes; or 2) No.



Example 3:* investment entities what do you think?

- » Real Estate Entity → develop, own and operate retail, office and other commercial properties. Typically holds its property in separate, wholly-owned subsidiaries.
- » Does not have a set time frame for disposing of its property investments.
- » Fair value is one performance indicator. Other measures are used (expected cash flows, rental revenues and expenses).
- » Real Estate Entity undertakes extensive property and asset management activities. **Development activity** forms a separate substantial part of the Real Estate Entity's business activities.

Is Real Estate Entity and investment entity?

Choose one of: 1) Yes; or 2) No.



Investment entities what do you think?

Is accounting for a qualifying subsidiary by an investment entity at the fair value of the investment (rather than by consolidation)?

Choose one of:

- 1) a principle (consistent with the economics); or
- 2) a rule (an exception from accounting in accordance with the economics)?

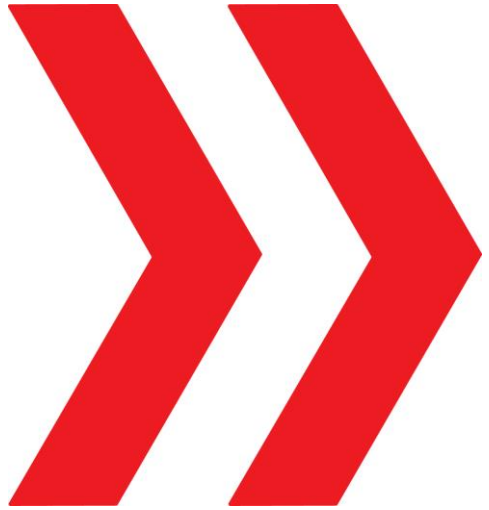


Investment entities what do you think?

Is accounting for a qualifying associate by an investment entity at the fair value of the investment (rather than using the equity method)?

Choose one of:

- 1) a principle (consistent with the economics); or
- 2) a rule (an exception from accounting in accordance with the economics)?



Judgements and estimates



Assets selected judgements and estimates continued

Investment property

- determining whether some items are investment (or PPE) requires judgement (for example some hotels and some shopping centres)
- if the cost model is used then see judgements for recognising and measuring PPE and, for disclosure, the judgements below for measuring fair value
- if fair value model, judgements in measuring the fair value of each investment property
- (only if using the IFRS for SMEs) determining whether fair value can be determined without undue cost or effort on an ongoing basis



Assets

selected judgements and estimates continued

Non-current assets held for sale (not applicable when using IFRS for SMEs)

- determining whether an asset satisfies the criteria to be classified as held for sale:
 - asset is available for immediate sale in its present condition;
 - management commitment to sale;
 - sale will take place in 12 months; and
 - price is reasonable in relation to fair value.
- measuring the fair value of unique assets
- estimating the costs to sell some assets



Assets selected judgements and estimates continued

Investments in associates and joint ventures (equity method accounting)

- determining whether an investor has significant influence (ie an associate)
- on initial recognition: measuring the goodwill component of the investment in associate and differences between the fair value of the investees assets and their carrying amounts
- estimating the amount of any 'unrealised' profit in sale of assets (usually inventories) from the associate to the investor
- adjusting the associates financial information for significant events occurring between the associates reporting date and that of the reporting investor.



Assets selected judgements and estimates continued

Financial assets

- determining the appropriate classification of some financial assets (for example in IFRS 9 when the business model is unclear)
- measuring the fair value of financial assets that do not trade in deep and liquid markets
- assessing hedge effectiveness
- assessing financial assets for impairment
 - the point at which there has been a significant increase in credit risk (expected loss model, IFRS 9)
 - whether impairment event has occurred (incurred loss model, IFRS for SMEs)