

Technical Accounting Alert

Equity Method in Separate Financial Statements

Introduction

On 12 August 2014, the International Accounting Standards Board (IASB) published narrow scope amendments to IAS 27 *Separate Financial Statements*, entitled *Equity Method in Separate Financial Statements (Amendments to IAS 27)*. The Amendments to IAS 27 allow entities to use the equity method to account for investments in subsidiaries, joint ventures, and associates in their separate financial statements.

Background

Prior to the publication of the Amendments to IAS 27, IAS 27 required an entity to account for its investments in subsidiaries, joint ventures and associates either at cost or in accordance with IFRS 9 *Financial Instruments* (or IAS 39 *Financial Instruments: Recognition and Measurement* where an entity has not yet adopted IFRS 9).

In responses to the IASB's 2011 Agenda Consultation, some of the IASB's constituents noted however that:

- the laws of some countries require listed companies to present separate financial statements prepared in accordance with local regulations
- those local regulations require the use of the equity method to account for investments in subsidiaries, joint ventures and associates
- in most cases, the use of the equity method would be the only difference between the separate financial statements prepared in accordance with IFRSs and those prepared in accordance with local regulations.

The Amendments

In response, the IASB has published the Amendments to IAS 27, so introducing a third option which allows entities to account for investments in subsidiaries, joint ventures and associates under the equity method.

As a result, entities will have an accounting policy choice in their separate financial statements between accounting:

- at cost
- in accordance with IFRS 9 (or IAS 39)
- under the equity method.

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Entities are required to apply the same accounting for each category of investments.

Effective date and transition

The Amendments to IAS 27 are effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted.

No specific transitional provisions have been included as the IASB believes entities should be able to use information that is already available to them in applying the Amendments.

Australian context

The Australian Accounting Standards Board (AASB) is expected to issue the equivalent amendments to AASB 127 *Separate Financial Statements* in the near future.

Further information

For further information on any of the information included in this TA alert, please contact your local Grant Thornton Australia contact or a member of the National Audit Support team at

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