LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA
MALAYSIAN ACCOUNTING STANDARDS BOARD

MASB Standard 12

Investments in Associates

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The standards, which have been set in bold type, should be read in the context of the background material and implementation guidance in this Standard, and in the context of the Foreword to MASB Standards. MASB Standards are not intended to apply to immaterial items.

Objective

The objective of this MASB Standard is to prescribe the methods of accounting for investments in associates in an investor's consolidated financial statements as well as in its separate financial statements.

Scope

1. This Standard should be applied in accounting by an investor for investments in associates.

2. This Standard supersedes MASB Approved Accounting Standard IAS 28, Accounting for Investments in Associates, issued previously by the Malaysian professional accountancy bodies.

Definitions

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

Associate is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor.

Control (for the purpose of this Standard) is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Cost method is a method of accounting whereby the investment is recorded at cost. The income statement reflects income from the investment only to the extent that the investor receives distributions from accumulated net profits of the investee arising subsequent to the date of acquisition.

Equity method is a method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The income statement reflects the investor's share of the results of operations of the investee.

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

Subsidiary is an enterprise that is controlled by another enterprise (known as the parent).

Significant Influence

4. If an investor holds, directly or indirectly through subsidiaries, 20% or more of the voting power of the investee, it is presumed that the investor does have significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly through subsidiaries, less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence.

5. The existence of significant influence by an investor is usually evidenced in one or more of the following ways:

   (a) representation on the board of directors or equivalent governing body of the investee;

   (b) participation in policy making processes;

   (c) material transactions between the investor and the investee;

   (d) interchange of managerial personnel; or

   (e) provision of essential technical information.

Equity Method

6. Under the equity method, the investment is initially recorded at cost and the carrying amount is increased or decreased to recognise the investor's share of the profits or losses of the investee after the date of acquisition. Distributions received from an investee reduce the carrying amount of the

investment. Adjustments to the carrying amount may also be necessary for alterations in the investor's proportionate interest in the investee arising from changes in the investee's equity that have not been included in the income statement. Such changes include those arising from the revaluation of property, plant, equipment and investments, from foreign exchange translation differences and from the adjustment of differences arising on business combinations.

Cost Method

7. Under the cost method, an investor records its investment in the investee at cost. The investor recognises income only to the extent that it receives distributions from the accumulated net profits of the investee arising subsequent to the date of acquisition by the investor. Distributions received in excess of such profits are considered a recovery of investment and are recorded as a reduction of the cost of the investment in accordance with the MASB Approved Accounting Standard IAS 25, Accounting for Investments.

Consolidated Financial Statements

8. An investment in an associate should be accounted for in consolidated financial statements under the equity method except when the investment is acquired and held exclusively with a view to its disposal in the near future in which case it should be accounted for under the cost method.

9. An investor should discontinue the use of the equity method from the date that:

(a) it ceases to have significant influence in an associate but retains, either in whole or in part, its investment; or

(b) the use of the equity method is no longer appropriate because the associate operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor.

The carrying amount of the investment at that date should be regarded as cost thereafter.

10. The recognition of income on the basis of distributions received may not be an adequate measure of the income earned by an investor on an investment in an associate because the distributions received may bear

little relationship to the performance of the associate. As the investor has significant influence over the associate, the investor has a measure of responsibility for the associate's performance and, as a result, the return on its investment. The investor accounts for this stewardship by extending the scope of its consolidated financial statements to include its share of results of such an associate and so provides an analysis of earnings and investment from which more useful ratios can be calculated. As a result, the application of the equity method provides more informative reporting of the net assets and net income of the investor.

11. An investment in an associate is accounted for using the cost method when it operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor. The carrying amount of the investment as at the date the restrictions came into effect should be regarded as cost and subsequently tested for impairment losses in accordance with paragraph 26. Investments in associates are also accounted for using the cost method when the investment is acquired and held exclusively with a view to its disposal in the near future. This would be the case where for the acquired investment, a purchaser has been identified or is being sought, and is reasonably expected to be disposed of within approximately one year of its date of acquisition (or beyond that) if, at the date the financial statements are authorised, the terms of the sale have been agreed and the process of disposing that interest is substantially complete. Where such investments are classified as current investments, they should be stated at the lower of cost and net realisable value.

Separate Financial Statements of the Investor

12. An investment in an associate that is included in the separate financial statements of an investor that issues consolidated financial statements should be carried at cost or revalued amounts under the accounting policy for long-term investments (see MASB Approved Accounting Standard IAS 25, *Accounting for Investments*).

13. The preparation of consolidated financial statements does not, in itself, obviate the need for separate financial statements for an investor.

14. An investment in an associate that is included in the financial statements of an investor that does not issue consolidated financial statements should be carried at cost or revalued amounts under the accounting policy for long-term investments (see MASB Approved Accounting Standard IAS 25, *Accounting for Investments*).

The investor should disclose in the notes to the accounts, what would have been the effect had the equity method been applied. A parent company which is itself a wholly owned subsidiary of another parent company incorporated in Malaysia is not required to comply with this disclosure requirement in its financial statements.

15. An investor that has investments in associates may not issue consolidated financial statements because it does not have subsidiaries. It is appropriate that such an investor provides the same information about its investments in associates as those enterprises that issue consolidated financial statements. In the case of a parent company which is itself a wholly owned subsidiary of another parent company incorporated in Malaysia, and therefore does not issue consolidated financial statements, such a disclosure would serve no useful purpose.

Application of the Equity Method

General Principles

16. Many of the procedures appropriate for the application of the equity method are similar to the consolidation procedures set out in MASB 11, Consolidated Financial Statements and Investments in Subsidiaries. Furthermore, the broad concepts underlying the consolidation procedures used in the acquisition of a subsidiary are adopted on the acquisition of an investment in an associate.

17. An investment in an associate is accounted for under the equity method from the date on which it falls within the definition of an associate. On acquisition of the investment any difference (whether positive or negative) between the cost of acquisition and the investor's share of the fair values of the net identifiable assets of the associate is accounted for in accordance with MASB ED #, Business Combinations. Appropriate adjustments to the investor's share of the profits or losses after acquisition are made to account for:

(a) depreciation of the depreciable assets, based on their fair values; and

(b) amortisation, if any, of the difference between the cost of the investment and the investor's share of the fair values of the net identifiable assets.

18. The most recent available financial statements of the associate are used by the investor in applying the equity method; they are usually drawn up to the same date as the financial statements of the investor. When the reporting dates of the investor and the associate are different, the associate often prepares, for the use of the investor, statements as at the same date as the financial statements of the investor. When it is impracticable to do this, financial statements drawn up to a different reporting date may be used. The consistency principle dictates that the length of the reporting periods, and any difference in the reporting dates, are consistent from period to period.

19. When financial statements with a different reporting date are used, adjustments are made for the effects of any significant events or transactions between the investor and the associate that occur between the date of the associate's financial statements and the date of the investor's financial statements.

20. The investor's financial statements are usually prepared using uniform accounting policies for like transactions and events in similar circumstances. In many cases, if an associate uses accounting policies other than those adopted by the investor for like transactions and events in similar circumstances, appropriate adjustments are made to the associate's financial statements when they are used by the investor in applying the equity method. If it is not practicable for such adjustments to be calculated, that fact is generally disclosed.

21. If an associate has outstanding cumulative preference shares, held by outside interests, the investor computes its share of profits or losses after adjusting for the preference dividends, whether or not the dividends have been declared.

22. If the investor's share of losses of an associate exceeds the carrying amount of the investment, recognition of further losses should be discontinued, unless the investor has incurred obligations to satisfy obligations of the associate that the investor has guaranteed or otherwise committed, whether funded or not. This is the case whether or not the investor has financial interests in the associate other than those that are considered part of the carrying amount of the investment in the associate in accordance with paragraph 23.

23. For the purpose of applying paragraph 22 of this Standard, the carrying amount of the investment in an associate should include:

    (a) common shares; and

    (b) preference shares that provide unlimited rights of participation in earnings or losses and a residual equity interests in the associate.

24. Financial interests in an associate which are not included in the carrying amount of the investment in an associate are accounted for in accordance with other applicable MASB Standards.

25. Continuing losses of an associate should be considered objective evidence that financial interests in that associate may be impaired. Impairment of the carrying amount of financial interests (that are included in the scope of the investment in an associate for the purpose of applying paragraph 22) is determined based on the carrying amount after adjustment for equity method losses.

Impairment Losses

26. An enterprise should assess at each balance sheet date whether there is an indication that an investment in an associate may be impaired.

27. In determining the value in use of the investment, an enterprise estimates:

(a) its share of the present value of the estimated future cash flows expected to be generated by the investee as a whole, including the cash flows from the operations of the investee and the proceeds on the ultimate disposal of the investment; or

(b) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Under appropriate assumptions, both methods give the same result. Any resulting impairment loss for the investment is allocated in accordance with the MASB ED #, Impairment of Assets. Therefore, it is allocated first to any remaining goodwill.

28. The recoverable amount of an investment in an associate is assessed for each individual associate, unless an individual associate does not generate cash inflows from continuing use that are largely independent of those from other assets of the reporting enterprise.

Associates held by Partly-Owned Subsidiaries

29. Where the group’s investment in an associate is held by a subsidiary in which there are minority interests, the minority interests shown in the consolidated financial statements of the group should include the minorities’ share of the subsidiary’s interest in the results and net assets of the associate.

Associated Groups

30. In the case when the associate itself has subsidiaries or associates, the results and net assets to be dealt with in the investing group's consolidated financial statements are its attributable share of the results and net assets of the group of which the associate is the parent. In observing this principle, the investing group would normally use the associate's consolidated financial statements when the equity method is applied.

Unrealised Profits or Losses

31. Unrealised profits arising on transactions between an investing group and its associate which are included in the carrying amount of the related assets and liabilities should be eliminated partially to the extent of the investing group's interests in the associate. Similarly, unrealised losses on such transactions should be eliminated partially unless cost cannot be recovered.

32. In dealing with transactions between an investor and its associate, it is necessary to examine the concept of the single economic entity upon which consolidated financial statements are based. The single economic entity concept applied to a parent and its subsidiaries is broadened to encompass part of the associate, to the extent of the investor's ownership interest in the associate. Accordingly, any unrealised profit arising from transactions between the investor (or its consolidated subsidiaries) and its associate, regardless of whether "upstream" or "downstream" transactions should be eliminated partially, to the extent of the investor's ownership interest in the associate. Similarly, any unrealised loss should be eliminated partially unless cost cannot be recovered. Hence, unrealised losses should not be eliminated to the extent that the transaction provides evidence of an impairment of the asset transferred. The elimination should be made by adjustments to the relevant accounts affected by the transactions between the investing group and its associate.

Reciprocal Shareholdings

33. Where an associate holds an ownership interest in the investor, any profit or loss and any increment or decrement of net assets of the investor which the associate has accounted for in its financial statements, should be disregarded when the investor applies the equity method to account for its investment in the associate.

34. Reciprocal shareholdings may exist between an investor and its associates. In such circumstances, it is necessary that the investor does not double-count part of its own profits or losses and other results when it applies the equity method. In the case where the associate applies the cost

method to account for its investment in the investor, any dividend income from the investor that has been recognised by the associate should be disregarded when the investor applies the equity method. In the consolidated income statement of the investor, the investor's proportionate share of the dividend paid or payable to the associate should be eliminated. In the case where the associate applies the equity method to account for its investment in the investor, the share of profits or losses and share of other reserves which have been recognised by the associate should be disregarded when the investor applies the equity method.

Income Taxes

35. Income taxes arising from investments in associates and from partial eliminations of unrealised profits or losses are accounted for in accordance with MASB DSOP 5, Income Taxes.

Contingencies

36. In accordance with the MASB ED #, Provisions, Contingent Liabilities and Contingent Assets, the investor discloses:

    (a) its share of the contingent liabilities and capital commitments of an associate for which it is also contingently liable; and

    (b) those contingent liabilities that arise because the investor is severally liable for all the liabilities of the associate.

Disclosure

37. In addition to the disclosure required by paragraph 14 , the following disclosures should be made in the Notes:

   (a) an appropriate listing and description of significant associates including the proportion of ownership interest and, if different, the proportion of voting power held;

   (b) any reciprocal shareholdings between an investor and its associates; and

   (c) the methods used to account for such investments.

38. Investments in associates accounted for using the equity method should be classified as long-term assets and disclosed as a separate item in the balance sheet. In addition, in the consolidated balance sheet, the investing group's interests in associates should be analysed and the following, separately disclosed:

(a) **the group's share of the net assets other than goodwill of the associates;**

(b) **the group's share of any goodwill in the associates own financial statements or consolidated financial statements; and**

(c) **the goodwill or negative goodwill on acquisition of the group's interests in the associates, to the extent that it has not already been amortised or written-off.**

39. The investor's share of the profits or losses and taxes of such investments should be disclosed as a separate item in the income statement. The investor's share of any extraordinary or prior period items should also be separately disclosed. In addition, the investor's share of items of income and expenses included in the share of profit before taxes of the associates of such size, nature or incidence as set out by other MASB Standards should also be disclosed.

Unrecognised amounts of an investor's share of losses of an associate for the period and cumulatively should be disclosed in the notes to the financial statements.

40. A reporting enterprise that owns significant associates is encouraged to disclose voluntarily the assets, liabilities, revenue and expenses of the associates. Any such disclosure should be in the notes to the financial statements. Guidance on the components of these items is provided in MASB 1, Presentation of Financial Statements.

Transitional Provision

41. When the adoption of this MASB Standard constitutes a change in accounting policy, the effects of the change in accounting policy should be applied retrospectively and the corresponding amounts should be adjusted for the change in policy. If it is not practicable to do so, the effects of the new policy should be applied prospectively to all existing and new associates.

In disclosing the goodwill or negative goodwill arising on acquisition of existing associates, fair value of net assets acquired should be applied to the extent that it is practicable. If it is not practicable to do so, book value may be used and that fact should be disclosed.

Effective Date

42. This MASB Standard becomes operative for financial statements covering periods beginning on or after 1 January, 2000.

Appendix 1

Compliance with International Accounting Standards

As at the date of issue of this Standard, compliance with this Standard will ensure conformity in all material respects with International Accounting Standard IAS 28, (revised 1998) Accounting for Investments in Associates, except that in an investor’s separate financial statements, IAS 28 requires that investments in associates should be either carried at cost or revalued amounts; or accounted for using the equity method; or accounted for as available-for-sale financial assets as described in IAS 39, Financial Instruments: Recognition and Measurement. This MASB Standard prescribes only the method of cost or revalued amounts for investments in associates.

Appendix 2

This appendix is illustrative only and does not form part of the standards. The purpose of the appendix is to illustrate the application of the standards to assist in clarifying their meaning.

Example 1 - Disclosure of Share of Net Assets and Goodwill

Harta Bhd paid a consideration of RM10,000 for a 30% interest in the equity capital of Allied Bhd group. Allied Bhd is the parent of a group of companies and at the date Harta acquired its interest the pre-acquisition profits of Allied group were RM15,000. The summarised consolidated balance sheet of Allied Bhd as at 31 December 20x0 was as follows:

	RM
Share capital of RM1 each	10,000
Retained profits	25,000
	35,000
Goodwill on acquisition	8,000
Sundry net assets	27,000
	35,000

Disclosures in the Consolidated Accounts:

	RM
Investment in associated company:	
Shares in an associated company quoted in Malaysia, at cost	10,000
Share of post-acquisition profits	3,000
	13,000
Represented by:	
Share of net assets other than goodwill of the associated company	8,100
Share of goodwill of the associated company	2,400
	10,500
Premium on acquisition	2,500
	13,000

Example 2: Disclosure of Effects of Equity Method in the Accounts of an Investor Without Subsidiaries

P Bhd acquired a 30% interest in the equity capital of A Sdn Bhd on 1 January 20x0 for a cash consideration of RM15,000,000. On this date, the net assets of A Sdn Bhd were stated in the accounts at their fair value and the share capital and reserves were RM10,000,000 and RM20,000,000 respectively. The summarised accounts of the two companies for the 20x0 financial year were as follows:

Summarised Profit and Loss Accounts

	P Bhd RM'000	A Sdn Bhd RM'000
Trading profit	65,277	27,778
Dividend income from A Sdn Bhd	4,167	-
Profit before taxation	69,444	27,778
Taxation at 28%	(19,444)	(7,778)
Profit after taxation	50,000	20,000
Dividend paid	(30,000)	(10,000)
Retained profit for the year	20,000	10,000
Retained profits brought forward	60,000	20,000
Retained profits carried forward	80,000	30,000

Summarised Balance Sheets

	P Bhd RM'000	A Sdn Bhd RM'000
Share capital of RM1 each	50,000	10,000
Retained profits	80,000	30,000
	130,000	40,000
Investment in A Sdn Bhd, at cost	15,000	-
Sundry net assets	115,000	40,000
	130,000	40,000

Disclosures in the Statutory Accounts of P Bhd:

Balance sheet disclosure:	RM'000
Unquoted shares in associated company, at cost (Note 1)	15,000

Profit and loss disclosure:	RM'000
Gross dividend income from unquoted shares (Note 2)	4,167

Disclosure of the Effects of the Equity Method:

Note 1: If the equity method of accounting had been applied, the carrying amount of investment in associated company would have been as follows:

	RM'000
Unquoted shares in associated company, at cost	15,000
Share of post-acquisition retained profits	3,000
	18,000
Represented by:	
Share of net assets of associated company	12,000
Goodwill on acquisition	6,000
	18,000

Note 2: If the equity method of accounting had been applied, the profit and loss account of the Company would have been as follows:

		RM'000
Trading profit of the Company		65,277
Share of profit in associated company		8,333
Net profit before taxation		73,610
Taxation	- Company	(18,277)
	- Share of taxation in associated company	(2,333)
Net profit after taxation		53,000
Dividend paid		(30,000)
Retained profit for the year		23,000
Retained profits brought forward		60,000
Retained profits carried forward		83,000