SPECIFIC ITEMS
SECTION 3051
investments

Basis for Conclusions

Investments, Section 3051 (June 2019)

Subsidiaries and Investments, Sections 1591 and 3051 (December 2016)

Joint Arrangements, Sections 3051 and 3056 (March 2015)

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PURPOSE AND SCOPE

.01 This Section establishes standards for:

(a) investments subject to significant influence; and

(b) measuring and disclosing certain other non-financial instrument investments (such as works of art and other tangible assets held for investment purposes).

.02 This Section also applies to:

(a) an enterprise that uses the equity method to account for its subsidiaries, in accordance with SUBSIDIARIES, Section 1591; and

(b) an investor that uses the cost or equity method to account for its interest in a jointly controlled enterprise, in accordance with INTERESTS IN JOINT ARRANGEMENTS, Section 3056.

.03 Except as specified by paragraph 3051.02, this Section does not apply to:

(a) subsidiaries or interests in joint arrangements;

(b) financial instruments within the scope of FINANCIAL INSTRUMENTS, Section 3856;

(c) investments held by investment companies (see ACCOUNTING GUIDELINE AcG-18, Investment Companies); or

(d) biological assets within the scope of AGRICULTURE, Section 3041.

DEFINITIONS

.04 The following terms are used in this Section with the meanings specified:

(a) The **equity method** is a basis of accounting for investments whereby the investment is initially recorded at cost and the carrying value is adjusted thereafter to include the investor's pro rata share of post-acquisition earnings of the investee, computed by the consolidation method. The amount of the adjustment is included in the determination of net income by the investor, and the investment account of the investor is also increased or decreased to reflect the investor's share of capital transactions and changes in accounting policies and corrections of errors relating to prior period financial statements applicable to post-acquisition periods. Profit distributions received or receivable from an investee reduce the carrying value of the investment.

(b) The **cost method** is a basis of accounting for investments whereby the investment is initially recorded at cost; earnings from such investments are recognized only to the extent received or receivable.

(c) **Dividends** refer to those dividends paid or payable in cash or other assets, and do not include distributions of shares unless the effect is to change the equity interests of two or more classes of shares.

(d) **Fair value** is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

INVESTMENTS SUBJECT TO SIGNIFICANT INFLUENCE AND INTERESTS IN JOINTLY CONTROLLED ENTERPRISES

.05 Significant influence differs from control and joint control (see SUBSIDIARIES, Section 1591, and INTERESTS IN JOINT ARRANGEMENTS, Section 3056). An investor may be able to exercise significant influence over the strategic operating, investing and financing policies of an investee even when the investor does not control or jointly control the investee. For example, the ability to exercise significant influence may be indicated by representation on the board of directors, participation in policy-making processes, material intercompany transactions, interchange of managerial personnel or provision of technical information. If the investor holds less than 20 percent of the voting interest in the investee, it is presumed that the investor does not have the ability to exercise significant influence, unless such influence is clearly demonstrated. On the other hand, the holding of 20 percent or more of the voting interest in the investee does not in itself confirm the ability to exercise significant influence. A substantial or majority ownership by another investor would not necessarily preclude an investor from exercising significant influence.

.06 *An investor that is able to exercise significant influence over an investee shall make an accounting policy choice to account for the investment using either:*

(a) the equity method; or

(b) the cost method.

An investor shall account for all investments subject to significant influence using the same method. In making this accounting policy choice, an investor need not meet the criterion in ACCOUNTING CHANGES, paragraph 1506.06*(b).*

.07 *When an investee's equity securities are quoted in an active market, the investment shall be accounted for using the equity method or at its quoted amount with changes recorded in net income. Under these circumstances, the investment shall not be accounted for using the cost method.*

Cost method

.07A *An investor that elects to account for its investments subject to significant influence or its interests in jointly controlled enterprises using the cost method shall apply the following accounting to determine the initial measurement of the investment:*

(a) Cost shall be measured at the acquisition-date fair value of the consideration transferred to the other party in exchange for the investment or in exchange for the interest in a jointly controlled enterprise. Cost includes consideration transferred on the acquisition date and any consideration transferred before or after the acquisition date. Consideration includes monetary and non-monetary consideration. When an investment subject to significant influence or an interest in a jointly controlled enterprise is acquired by an exchange of only equity interests, the acquisition-date fair value of the investee's equity interests may be more reliably measurable than the acquisition-date fair value of the enterprise's equity interests. If so, the enterprise shall determine the fair value of the consideration transferred by using the acquisition-date fair value of the investee's equity interests instead of the acquisition-date fair value of the enterprise's equity interests transferred.

(b) Acquisition-related costs shall be recognized as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt and equity securities shall be recognized in accordance with FINANCIAL INSTRUMENTS, Section 3856*, and CAPITAL TRANSACTIONS, Section* 3610*, respectively.*

(c) An investor sometimes obtains the ability to exercise significant influence or obtains joint control over an investee in which the investor previously held an interest. An investor may also acquire an additional interest in an investment subject to significant influence or a jointly controlled enterprise that does not result in acquiring control over the investee. In such cases, the cost of the resulting investment shall be the carrying amount of the investment immediately before the increase in the investor's interest plus the cost of the additional interest acquired, measured in accordance with this paragraph. In addition, the following accounting shall be applied:

(i) The previously held interest in the investee shall not be remeasured,

(ii) Acquisition-related costs on the previously held interest capitalized in accordance with FINANCIAL INSTRUMENTS, paragraph 3856.07, shall not be expensed but shall continue to be included in the carrying amount of the investment in an investee. However, acquisition-related costs on the additional interest shall be recognized as an expense in accordance with (b) above.

The investor shall assess whether the cost of the additional interest acquired indicates that the carrying amount of the investment in an investee may be impaired (see paragraphs 3051.23-.27).

Equity method

.08 *Investment income, as calculated by the equity method, shall be the investor's share of the income or losses of the investee.*

.09 *In accounting for an investment by the equity method, the investor's share of the investee's discontinued operations, changes in accounting policy, corrections of errors relating to prior period financial statements and capital transactions shall be presented in the investor's financial statements according to their nature.*

.10 In those situations in which the investor has the ability to exercise significant influence, shareholders would be informed of the results of operations of the investee, and it is appropriate to include in the results of operations of the investor its share of the income or losses of the investee. The equity method of accounting for the investment provides this information.

.11 Depreciation and amortization of investee assets are based on the assigned costs of such assets at the date(s) of acquisition. The portion of the difference between the investor's cost and the amount of its underlying equity in the net assets of the investee that is similar to goodwill (equity method goodwill) is not amortized. No part of an impairment write-down of an investment accounted for by the equity method is presented in the income statement as a goodwill impairment loss (see GOODWILL AND INTANGIBLE ASSETS, Section 3064).

.12 The investment account of the investor reflects:

(a) the cost of the investment in the investee;

(b) the investment income or loss (including the investor's share of discontinued operations) relating to the investee subsequent to the date when the use of the equity method first became appropriate;

(c) the investor's share of a change in an accounting policy, a correction of an error relating to prior period financial statements and capital transactions of the investee subsequent to the date when the use of the equity method first became appropriate; and

(d) the investor's proportion of dividends paid by the investee subsequent to the date when the use of the equity method first became appropriate.

.13 Presentation of the individual steps involved in the calculation of investment income on the equity method includes a duplication of much of CONSOLIDATED FINANCIAL STATEMENTS, Section 1601, which deals with consolidations. However, the investor's share of any discontinued operations, changes in accounting policy, corrections of errors relating to prior period financial statements or capital transactions of the investee is presented and disclosed separately, according to its nature, in the investor's financial statements.

.14 *When an investor transfers assets to an equity-accounted investee in exchange for an interest in the investee, or sells assets to an equity-accounted investee in the normal course of operations, any gain or loss that occurs shall be recognized in income at the time of the transfer or sale to the extent of the interests of the other non-related investors. When such a transaction provides evidence of a reduction in the net realizable value or a decline in the carrying amount of the relevant assets, the investor shall recognize this decline by writing down that portion of the assets retained through its interest in the equity-accounted investee and recognize the full amount of any loss in income.*

.15 Except as required in paragraph 3051.14, the portion of the gain or loss attributable to the investor's interest in the equity-accounted investee or to the interest of other related investors is recognized by the investor when the asset is sold by the equity-accounted investee to a third party or realized through the operations of the equity-accounted investee.

.16 When a new investor and existing investors are not related parties (see RELATED PARTY TRANSACTIONS, Section 3840) prior to the transfer of non-monetary assets, other than product or property held for sale in the normal course of operations to facilitate sales to customers, the change in control of the assets generally constitutes a change in the risk of the cash flows the investors expect to receive. Accordingly, the transaction has commercial substance and is measured at fair value, provided the fair value is reliably measurable (see NON-MONETARY TRANSACTIONS, Section 3831). When the investors are related parties, the transaction is accounted for as a non-monetary transaction in accordance with Section 3840.

.17 *When an investor purchases assets in the normal course of operations from an equity-accounted investee, the investor shall not recognize its share of the profit or loss of the investee on the transaction until the assets are sold to a third party. However, when the transaction provides evidence of a reduction in the net realizable value, or a decline in the value of the relevant assets, the investor shall recognize its share of the loss in income immediately.*

.18 *An investor's share of losses in excess of the carrying amount of the investment shall be recorded if:*

(a) the investor has guaranteed the obligations of the investee;

(b) the investor is otherwise committed to provide further financial support to the investee; or

(c) the investee seems assured of imminently returning to profitability.

Cessation of ability to exercise significant influence

.19 *When an investor ceases to be able to exercise significant influence over an investee, the investor shall account for the investment as follows:*

(a) *If the investor has obtained control of the investee, it accounts for its interest in accordance with SUBSIDIARIES, Section* 1591.

(b) *If the investor has obtained joint control of a jointly controlled enterprise, it accounts for its interest in accordance with INTERESTS IN JOINT ARRANGEMENTS, Section* 3056.

(c) *If the investor has a retained interest that represents rights to the individual assets and obligations for the individual liabilities of a joint arrangement, it accounts for its interests by applying the relevant standards for those assets and liabilities in accordance with Section* 3056.

(d) *If the investor has a retained interest in the investee that is a financial instrument, the investor accounts for the investment in accordance with FINANCIAL INSTRUMENTS, Section* 3856.

.20 When an investor ceases to account for an investment using the equity method, cost is deemed to be the carrying value of the investment at that time. Consideration is given to whether the carrying value requires adjustment to reflect an impairment in value (see paragraphs 3051.23-.27).

OTHER INVESTMENTS

.21 *The cost method shall be used in accounting for investments within the scope of this Section other than those for which the investor is able to exercise significant influence over an investee.*

.22 These types of investments include certain other non-financial instrument investments such as works of art and other tangible assets held for investment purposes.

IMPAIRMENT OF AN INVESTMENT

.23 *At the end of each reporting period, an investor shall assess whether there are any indications that an investment may be impaired. When there is an indication of impairment, an investor shall determine whether a significant adverse change has occurred during the period in the expected timing or amount of future cash flows from the investment.*

.24 Indicators of impairment include:

(a) significant financial difficulty of the investee;

(b) it becoming probable that the investee will enter bankruptcy or other financial reorganization;

(c) the disappearance of an active market for shares of the investee because of financial difficulties;

(d) a significant adverse change in the technological, market, economic or legal environment in which the investee operates, or in the market to which an asset is dedicated (for example, a sharp decline in the price of a commodity that may cause economic instability in the investee's industry);

(e) an acquisition of an additional interest or sale of a portion of an interest in an investee for consideration paid or received that is less than the proportionate share of the carrying amount of the interest in an investee immediately before the acquisition or sale; and

(f) a dilution in an investor's interest in an investee that indicates the expected amount of future cash flows from holding or selling the investment is less than the carrying amount of the investment immediately before the dilution.

.25 *When an investor identifies a significant adverse change in the expected timing or amount of future cash flows from an investment, it shall reduce the carrying amount of the investment to the higher of the following:*

(a) the present value of the cash flows expected to be generated by holding the investment, discounted using a current market rate of interest appropriate to the asset; and

(b) the amount that could be realized by selling the asset at the balance sheet date.

The carrying amount of the investment shall be reduced directly or through the use of an allowance account. The amount of the reduction shall be recognized as an impairment loss in net income.

.26 *When the extent of impairment of a previously written down investment decreases and the decrease can be related to an event occurring after the impairment was recognized (such as a return to profitability of the investee), the previously recognized impairment loss shall be reversed to the extent of the improvement. The adjusted carrying amount of the investment shall be no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal shall be recognized in net income in the period the reversal occurs.*

.27 Paragraph 3051.26 does not apply to investments carried at fair value in accordance with paragraph 3051.07, since changes in value are recognized each period as a result of the remeasurement of the investment to fair value.

GAINS AND LOSSES ON SALES OF INVESTMENTS

.28 *For the purposes of calculating a gain or loss on the sale of an investment, the cost of the investment sold shall be calculated on the basis of the average carrying value.*

.29 Under the average carrying value method, the gain or loss is properly recognized as being part of the ultimate gain or loss on the entire holding of each investment, and is more likely to be representative of the ultimate entire gain or loss.

.30 An investor's investment in an investee may be diluted, for example, because the investee issues additional shares to third parties. Gains and losses resulting from a dilution in an investor's investment in an investee accounted for using the equity method are recognized in income, consistent with the accounting for a gain or loss arising on the sale of a portion of an investment.

PRESENTATION

.31 *The following shall be presented separately on the balance sheet:*

- *(a) subsidiaries and interests in joint arrangements accounted for using the equity method;*
- *(b) subsidiaries and interests in joint arrangements accounted for at cost;*
- *(c) investments in companies subject to significant influence accounted for using the equity method; and*
- *(d) other investments accounted for at cost.*

.32 *Income from investments in:*

- *(a) subsidiaries and interests in joint arrangements accounted for using the equity method;*
- *(b) subsidiaries and interests in joint arrangements accounted for at cost;*
- *(c) investments in companies subject to significant influence accounted for using the equity method; and*
- *(d) other investments accounted for at cost;*

shall be presented separately in the income statement.

.33 A significant factor in evaluating the investment income is the relationship of the income reported to the investments from which such income is derived. For this reason, investments reported in the balance sheet and investment income reported in the income statement are grouped in the same way.

DISCLOSURE

.34 *The basis used to account for investments shall be disclosed.*

.35 *When the fiscal periods of an investor and an investee are not coterminous and the equity method is used to account for the investee, events relating to, or transactions of, the investee that have occurred during the intervening period and significantly affect the financial position or results of operations of the investor shall be disclosed. This disclosure is not necessary if these events or transactions are recorded in the financial statements.*

.36 *An investor that elects to account for its investments using the equity method shall disclose the fair value of an investment when it is quoted in an active market.*

.37 *An investor shall provide a listing and description of significant investments, including the names, carrying values and proportion of ownership interests held in each investment.*

.38 *An investor shall disclose, by type of asset:*

- *(a) the carrying amount of impaired assets and the amount of related allowance for impairment; and*
- *(b) the amount of any impairment loss or reversal of a previously recognized impairment loss that is included in net income.*

EFFECTIVE DATE AND TRANSITION

.39 Except as specified in paragraphs 3051.40-.45, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.

.40 Paragraph 3051.30 may be applied prospectively, as defined in ACCOUNTING CHANGES, paragraph 1506.05(g), to annual financial statements relating to fiscal years beginning on or after January 1, 2013. Earlier application is permitted.

.41 Paragraphs 3051.14-.17 may be applied prospectively, as defined in ACCOUNTING CHANGES, paragraph 1506.05(g), to annual financial statements relating to fiscal years beginning on or after January 1, 2016. Earlier application is permitted. If an investor applies paragraphs 3051.14-.17 before January 1, 2016, it discloses that fact and applies INTERESTS IN JOINT ARRANGEMENTS, Section 3056, at the same time.

.42 Amendments to paragraph 3051.38, issued in October 2015, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2016. Earlier application is permitted.

.43 Amendments to paragraph 3051.02 and new paragraphs 3051.04(d), 3051.07A and 3051.24(e)-(f), issued in December 2016, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2018, and may be applied prospectively as defined in ACCOUNTING CHANGES, paragraph 1506.05(g). Earlier application is permitted.

.44 Amendments to paragraph 3051.07A issued in June 2019 may be applied prospectively, as defined in ACCOUNTING CHANGES, paragraph 1506.05(g), to annual financial statements relating to fiscal years beginning on or after January 1, 2021. Earlier application is permitted.

.45 AGRICULTURE, Section 3041, issued in November 2019, added paragraph 3051.03(d). An enterprise shall apply this paragraph when it applies Section 3041.