ASPE AT A GLANCE

Section 3051 - Investments

October 2019

Section 3051 – Investments

Effective Date
Fiscal years beginning on or after January 1, 2011[1]

SCOPE

Applies to:
- Investments subject to significant influence;
- Subsidiaries accounted for using the equity method in accordance with Section 1591;
- Interests in jointly controlled enterprises accounted for using the cost or equity method in accordance with Section 3056; and
- The measurement and disclosure of certain other non-financial instrument investments (such as works of art and other tangible assets held for investment purposes).

Except as specified by paragraph 3051.02, this Section does not apply to:
- Subsidiaries or interest in joint arrangements;
- Financial instruments within the scope of Section 3856, Financial Instruments; or
- Investments held by investment companies (see AcG-18, Investment Companies).

INVESTMENTS SUBJECT TO SIGNIFICANT INFLUENCE

- An investor that can exercise significant influence over an investee makes an accounting policy choice to account for its investment using either:
  - The equity method; or
  - The cost method.
- All of an investor's investments subject to significant influence must be accounted for using the same method. This accounting policy choice does not need to meet the criteria in paragraph 1506.06(b).
- When the investee's equity securities are quoted in an active market, the cost method cannot be used. Instead the investor must account for its investment using the equity method or at its quoted amount, with changes recognized in net income.

COST METHOD

- A basis of accounting where the investment is initially recorded at cost, which is determined as followed:
  - Cost is 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.
  - Acquisition-related costs are expensed, except for costs to issued debt and equity securities which are recognized in accordance with Section 3856, Financial Instruments, and Section 3610, Capital Transactions, respectively.
  - When an investor obtains the ability to exercise significant influence or obtains joint control over an investee in which the investor previously held an interest (but does not obtain control of the investee), the cost of the resulting investment is the carrying amount of the investment immediately before the increase in the investor's interest plus the cost of the additional interest acquired. The investor must assess the carrying amount of the investment for impairment.
- Subsequent earnings from the investment are only recognized to the extent received / receivable.

EQUITY METHOD

- A basis of accounting where the investment is initially recorded at cost and subsequently adjusted to include:
  - The investor's pro rata share of post-acquisition earnings of the investee, computed using the consolidation method. The amount of the adjustment is included in determining the investor's net income.
  - The investor's investment account is increased / decreased to reflect the investor's proportionate share of any capital transactions, discontinued operations, changes in accounting policies and corrections of errors relating to prior period financial statements applicable to post-acquisition periods.
  - Profit distributions received / receivable from an investee reduce the carrying value of the investment.

LOSS OF SIGNIFICANT INFLUENCE

- When an investor is no longer able to exercise significant influence over an investee the investment is accounted for as follows:
  - If the investor has obtained control of the investee, in accordance with Section 1591, Subsidiaries.
  - If the investor has obtained joint control of a jointly controlled enterprise, in accordance with Section 3056, Interests in Joint Arrangements.
  - If the investor has a retained interest that represents rights to the individual assets and obligations for the individual liabilities of a joint arrangement, by applying the relevant standards for those assets and liabilities in accordance with Section 3056.
  - If the investor has a retained interest in the investee that is a financial instrument, in accordance with Section 3856.

OTHER INVESTMENTS

Non-significant influence investments in the scope of this Section (i.e. non-financial instrument investments such as works of art and other tangible assets held for investment purposes) are measured at cost.

[1] Except as specified in paragraph 3051.39.

IMPAIRMENT

- An investor assesses whether there are any indications an investment may be impaired at the end of each reporting period.
- When there are impairment indicators (see paragraph 3051.24), an investor determines whether there has been a significant adverse change in the expected timing or amount of future cash flows from the investment during the period.
- When the assessment results show a significant adverse change has occurred, the carrying amount of the investment is reduced to the higher of:
  - The present value of the cash flows expected to be generated by holding the investment, discounted using a current market rate of interest; and
  - The amount that could be realized by selling the asset at the balance sheet date.
- The reduction in the investment is recognized as an impairment loss in net income.
- When the value of a previously impaired investment increases, a reversal of the previous impairment is recognized to the extent of the improvement. The adjusted carrying amount of the investment cannot be greater than the carrying amount the investment would have been recorded at had the impairment not been recognized previously. The reversal is recognized in net income in the period it occurs.

GAINS AND LOSSES ON SALE

- When calculating a gain or loss on the sale of an investment, the cost of the investment sold is calculated using the average carrying value.
- When an investor's investment in an investee accounted for using the equity method is diluted, any gains or losses arising from the dilution are recognized in income. This is consistent with the accounting for a gain or loss arising on the sale of a portion of an investment.

PRESENTATION

- The following must be presented separately on the Balance Sheet and the related income from the following must be presented separately on the Income Statement:
  - Subsidiaries and interests in joint arrangements accounted for using the equity method;
  - Subsidiaries and interests in joint arrangements accounted for using the cost method;
  - Investments in companies subject to significant influence accounted for using the equity method; and
  - Other investments accounted for at cost.

FISCAL PERIODS NOT COTERMINOUS

- When the fiscal periods of an investor and an investee are not coterminous and the equity method is used to account for the investee, there must be disclosure of any events relating to, or transactions of, the investee that occurred during the intervening period which have a significant effect on the financial position or results of operations of the investor; unless, these events or transactions are already recorded in the financial statements.

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