

**INTERNATIONAL PUBLIC SECTOR
ACCOUNTING STANDARDS™**

IPSAS 36—INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

IPSAS®

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History of IPSAS

This version includes amendments resulting from IPSAS issued up to January 31, 2024.

IPSAS 36, *Investments in Associates and Joint Ventures* was issued in January 2015.

Since then, IPSAS 36 has been amended by the following IPSAS:

- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* (issued May 2022)
- *COVID-19: Deferral of Effective Dates* (issued November 2020)
- *Long-term Interests in Associates and Joint Ventures (Amendments to IPSAS 36) and Prepayment Features with Negative Compensation (Amendments to IPSAS 41)* (issued January 2019)
- *Improvements to IPSAS 2018* (issued October 2018)
- IPSAS 41, *Financial Instruments* (issued August 2018)
- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)

Table of Amended Paragraphs in IPSAS 36

Paragraph Affected	How Affected	Affected By
4	Amended	<i>Improvements to IPSAS</i> April 2016
6	Deleted	<i>The Applicability of IPSAS</i> April 2016
7	Deleted	<i>The Applicability of IPSAS</i> April 2016
20	Amended	IPSAS 41 August 2018
20A	New	<i>Long-term Interests in Associates and Joint Ventures (Amendments to IPSAS 36) and Prepayment Features with Negative Compensation (Amendments to IPSAS 41)</i> January 2019
21	Amended	IPSAS 44 May 2022
24	Amended	IPSAS 41 August 2018 <i>Improvements to IPSAS</i> October 2018
25	Amended	IPSAS 41 August 2018
Heading above paragraph	New	IPSAS 44 May 2022
25A	New	IPSAS 44 May 2022
25B	New	IPSAS 44 May 2022
26	Amended	IPSAS 40 January 2017 IPSAS 41 August 2018

Paragraph Affected	How Affected	Affected By
31	Amended	IPSAS 40 January 2017
33	Amended	IPSAS 40 January 2017 IPSAS 45 May 2023
34A	New	IPSAS 40 January 2017
34B	New	IPSAS 40 January 2017
43	Amended	IPSAS 41 August 2018
44	Deleted	<i>Long-term Interests in Associates and Joint Ventures (Amendments to IPSAS 36) and Prepayment Features with Negative Compensation (Amendments to IPSAS 41)</i> January 2019
44A	New	IPSAS 41 August 2018
44B	New	IPSAS 41 August 2018
44C	New	IPSAS 41 August 2018
45	Amended	IPSAS 41 August 2018
51A	New	<i>The Applicability of IPSAS</i> April 2016
51B	New	IPSAS 40 January 2017
51C	New	IPSAS 40 January 2017
51D	Amended	<i>COVID-19: Deferral of Effective Dates</i> November 2020
51E	New	<i>Improvements to IPSAS</i> October 2018
51F	Amended	<i>COVID-19: Deferral of Effective Dates</i> November 2020
51G	New	<i>Long-term Interests in Associates and Joint Ventures (Amendments to IPSAS 36) and Prepayment Features with Negative Compensation (Amendments to IPSAS 41)</i> January 2019
51H	New	<i>Long-term Interests in Associates and Joint Ventures (Amendments to IPSAS 36) and Prepayment Features with Negative Compensation (Amendments to IPSAS 41)</i> January 2019
51I	New	<i>Long-term Interests in Associates and Joint Ventures (Amendments to IPSAS 36) and Prepayment Features with Negative Compensation (Amendments to IPSAS 41)</i> January 2019
51J	New	IPSAS 44 May 2022
51K	New	IPSAS 45 May 2023
Illustrative Example	New	<i>Long-term Interests in Associates and Joint Ventures (Amendments to IPSAS 36) and Prepayment Features with</i>

Paragraph Affected	How Affected	Affected By
		<i>Negative Compensation</i> (Amendments to IPSAS 41) January 2019

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International Public Sector Accounting Standard 36, *Investments in Associates and Joint Ventures*, is set out in paragraphs 1–53. All the paragraphs have equal authority. IPSAS 36 should be read in the context of its objective, the Basis for Conclusions, the *Preface to International Public Sector Accounting Standards*, and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for investments in associates and joint ventures.**
3. **This Standard shall be applied by all entities that are investors with significant influence over, or joint control of, an investee where the investment leads to the holding of a quantifiable ownership interest.**
4. This Standard provides the basis for accounting for ownership interests in associates and joint ventures. That is, the investment in the other entity confers on the entity the risks and rewards incidental to an ownership interest. This Standard applies only to quantifiable ownership interests. This includes ownership interests arising from investments in the formal equity structure of another entity. A formal equity structure means share capital or an equivalent form of capital, such as units in a property trust. Quantifiable ownership interests may also include ownership interests arising from other investments in which the entity's ownership interest can be measured reliably¹ (for example, interests in a partnership). Where the equity structure of the other entity is poorly defined, it may not be possible to obtain a reliable measure of the ownership interest.
5. Some contributions made by public sector entities may be referred to as an "investment," but may not give rise to an ownership interest. For example, a public sector entity may make a substantial investment in the development of a hospital that is owned and operated by a charity. While such contributions are non-exchange in nature, they allow the public sector entity to participate in the operation of the hospital, and the charity is accountable to the public sector entity for its use of public monies. However, the contributions made by the public sector entity do not constitute an ownership interest, as the charity could seek alternative funding and thereby prevent the public sector entity from participating in the operation of the hospital. Accordingly, the public sector entity is not exposed to the risks, nor does it enjoy the rewards, that are incidental to an ownership interest.
6. [Deleted]
7. [Deleted]

Definitions

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

An associate is an entity over which the investor has significant influence.

Binding arrangement: For the purposes of this Standard, a binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights.

Consolidated financial statements are the financial statements of an economic entity in which assets, liabilities, net assets/equity, revenue, expenses and cash flows of the controlling entity and its controlled entities are presented as those of a single economic entity.

¹ Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

The **equity method** is a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets/equity of the associate or joint venture. The investor's surplus or deficit includes its share of the investee's surplus or deficit and the investor's net assets/equity includes its share of changes in the investee's net assets/equity that have not been recognized in the investee's surplus or deficit.

A **joint arrangement** is an arrangement of which two or more parties have joint control.

Joint control is the agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A **joint venture** is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

A **joint venturer** is a party to a joint venture that has joint control of that joint venture.

Significant influence is the power to participate in the financial and operating policy decisions of another entity but is not control or joint control of those policies.

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately. The following terms are defined in either IPSAS 34, *Separate Financial Statements*, IPSAS 35, *Consolidated Financial Statements*, or IPSAS 37, *Joint Arrangements*: benefits, control, controlled entity, controlling entity, economic entity, investment entity, joint operation, power and separate financial statements.

Binding Arrangement

9. Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. Statutory mechanisms such as legislative or executive authority can also create enforceable arrangements, similar to contractual arrangements, either on their own, or in conjunction with contracts between the parties.

Significant Influence

10. Whether an investor has significant influence over the investee is a matter of judgment based on the nature of the relationship between the investor and the investee, and on the definition of significant influence in this Standard. This Standard applies only to those associates in which an entity holds a quantifiable ownership interest either in the form of a shareholding or other formal equity structure or in another form in which the entity's interest can be measured reliably.
11. If an entity holds a quantifiable ownership interest and it holds, directly or indirectly (e.g., through controlled entities), 20 per cent or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the entity holds, directly or indirectly (e.g., through controlled entities), less than 20 per cent of the voting power of the investee, it is presumed that the entity 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 entity from having significant influence.
12. The existence of significant influence by an entity 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, including participation in decisions about dividends or similar distributions;
 - (c) Material transactions between the entity and its investee;

- (d) Interchange of managerial personnel; or
 - (e) Provision of essential technical information.
13. An entity may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar instruments that have the potential, if exercised or converted, to give the entity additional voting power or to reduce another party's voting power over the financial and operating policies of another entity (i.e., potential voting rights). The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether an entity has significant influence. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.
 14. In assessing whether potential voting rights contribute to significant influence, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other binding arrangements whether considered individually or in combination) that affect potential rights, except the intentions of management and the financial ability to exercise or convert those potential rights.
 15. An entity loses significant influence over an investee when it loses the power to participate in the financial and operating policy decisions of that investee. The loss of significant influence can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when an associate becomes subject to the control of another government, a court or an administrator. It could also occur as a result of a binding arrangement.

Equity Method

16. Under the equity method, on initial recognition the investment in an associate or a joint venture is recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of the surplus or deficit of the investee after the date of acquisition. The investor's share of the investee's surplus or deficit is recognized in the investor's surplus or deficit. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's equity that have not been recognized in the investee's surplus or deficit. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognized in net assets/equity of the investor.
17. The recognition of revenue on the basis of distributions received may not be an adequate measure of the revenue earned by an investor on an investment in an associate or a joint venture because the distributions received may bear little relation to the performance of the associate or joint venture. Because the investor has joint control of, or significant influence over, the investee, the investor has an interest in the associate's or joint venture's performance and, as a result, the return on its investment. The investor accounts for this interest by extending the scope of its financial statements to include its share of the surplus or deficit of such an investee. As a result, application of the equity method provides more informative reporting of the investor's net assets/equity and surplus or deficit.
18. When potential voting rights or other derivatives containing potential voting rights exist, an entity's interest in an associate or a joint venture is determined solely on the basis of existing ownership interests and does not reflect the possible exercise or conversion of potential voting rights and other derivative instruments, unless paragraph 19 applies.
19. In some circumstances, an entity has, in substance, an existing ownership interest as a result of a transaction that currently gives it access to the benefits associated with an ownership interest. In such circumstances,

the proportion allocated to the entity is determined by taking into account the eventual exercise of those potential voting rights and other derivative instruments that currently give the entity access to the benefits.

20. IPSAS 41, *Financial Instruments* does not apply to interests in associates and joint ventures that are accounted for using the equity method. When instruments containing potential voting rights in substance currently give access to the benefits associated with an ownership interest in an associate or a joint venture, the instruments are not subject to IPSAS 41. In all other cases, instruments containing potential voting rights in an associate or a joint venture are accounted for in accordance with IPSAS 41.
- 20A. An entity also applies IPSAS 41 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture (see paragraph 41). An entity applies IPSAS 41 to such long-term interests before it applies paragraph 41 and paragraphs 43–48 of this Standard. In applying IPSAS 41 the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying this Standard.
21. Unless an investment, or a portion of an investment, in an associate or a joint venture is classified as held for sale in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*, the investment, or any retained interest in the investment not classified as held for sale, shall be classified as a non-current asset.

Application of the Equity Method

22. **An entity with joint control of, or significant influence over, an investee shall account for its investment in an associate or a joint venture using the equity method except when that investment qualifies for exemption in accordance with paragraphs 23–25.**

Exemptions from Applying the Equity Method

23. An entity need not apply the equity method to its investment in an associate or a joint venture if the entity is a controlling entity that is exempt from preparing consolidated financial statements by the scope exception in paragraph 5 of IPSAS 35 or if all of the following apply:
- (a) The entity itself is a controlled entity and the information needs of users are met by its controlling entity's consolidated financial statements, and, in the case of a partially owned entity, all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not applying the equity method.
 - (b) The entity's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).
 - (c) The entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization, for the purpose of issuing any class of instruments in a public market.
 - (d) The ultimate or any intermediate controlling entity of the entity produces financial statements available for public use that comply with IPSAS, in which controlled entities are consolidated or are measured at fair value in accordance with IPSAS 35.
24. When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through surplus or deficit in accordance with IPSAS 41. An entity shall make this election separately for each associate or joint venture, at initial recognition of the associate or joint venture. An investment entity will, by definition, have made this election for its investments.

25. When an entity has an investment in an associate, a portion of which is held indirectly through a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that portion of the investment in the associate at fair value through surplus or deficit in accordance with IPSAS 41 regardless of whether the venture capital organization, or the mutual fund, unit trust and similar entities including investment-linked insurance funds, has significant influence over that portion of the investment. If the entity makes that election, the entity shall apply the equity method to any remaining portion of its investment in an associate that is not held through a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds. When an entity has an investment in an associate, a portion of which is held indirectly through an investment entity, the entity shall measure that portion of the investment at fair value through surplus or deficit in accordance with IPSAS 41.

Classification as Held for Sale

- 25A. An entity shall apply IPSAS 44 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method until disposal of the portion that is classified as held for sale takes place. After the disposal takes place, an entity shall account for any retained interest in the associate or joint venture in accordance with IPSAS 41 unless the retained interest continues to be an associate or a joint venture, in which case the entity uses the equity method.
- 25B. When an investment, or a portion of an investment, in an associate or a joint venture previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for using the equity method retrospectively as from the date of its classification as held for sale. Financial statements for the periods since classification as held for sale shall be amended accordingly.

Discontinuing the Use of the Equity Method

26. **An entity shall discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture as follows:**
- (a) **If the investment becomes a controlled entity, the entity shall account for its investment in accordance with IPSAS 40, *Public Sector Combinations* and IPSAS 35.**
 - (b) **If the retained interest in the former associate or joint venture is a financial asset, the entity shall measure the retained interest at fair value. The fair value of the retained interest shall be regarded as its fair value on initial recognition as a financial asset in accordance with IPSAS 41. The entity shall recognize in surplus or deficit any difference between:**
 - (i) **The fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture; and**
 - (ii) **The carrying amount of the investment at the date the equity method was discontinued.**
 - (c) **When an entity discontinues the use of the equity method, the entity shall account for all amounts previously recognized directly in the entity's net assets/equity in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities.**
27. **If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.**

Changes in Ownership Interest

28. If an entity's ownership interest in an associate or a joint venture is reduced, but the investment continues to be classified either as an associate or a joint venture respectively, the entity shall transfer directly to accumulated surpluses or deficits the proportion of the gain or loss that had previously been recognized in net assets/equity relating to that reduction in ownership interest if that gain or loss would be required to be transferred directly to accumulated surpluses or deficits on the disposal of the related assets or liabilities.

Equity Method Procedures

29. Many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in IPSAS 35. Furthermore, the concepts underlying the procedures used in accounting for the acquisition of a controlled entity are also adopted in accounting for the acquisition of an investment in an associate or a joint venture.
30. An economic entity's share in an associate or a joint venture is the aggregate of the holdings in that associate or joint venture by the controlling entity and its controlled entities. The holdings of the economic entity's other associates or joint ventures are ignored for this purpose. When an associate or a joint venture has controlled entities, associates or joint ventures, the surplus or deficit and net assets taken into account in applying the equity method are those recognized in the associate's or joint venture's financial statements (including the associate's or joint venture's share of the surpluses or deficits and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies (see paragraphs 37–39).
31. Gains and losses resulting from "upstream" and "downstream" transactions involving assets that do not constitute an operation, as defined in IPSAS 40, between an entity (including its consolidated controlled entities) and its associate or joint venture are recognized in the entity's financial statements only to the extent of unrelated investors' interests in the associate or joint venture. "Upstream" transactions are, for example, sales of assets from an associate or a joint venture to the investor. The entity's share in the associate's or the joint venture's gains or losses resulting from these transactions is eliminated. "Downstream" transactions are, for example, sales or contributions of assets from the investor to its associate or its joint venture.
32. When downstream transactions provide evidence of a reduction in the net realizable value of the assets to be sold or contributed, or of an impairment loss of those assets, those losses shall be recognized in full by the investor. When upstream transactions provide evidence of a reduction in the net realizable value of the assets to be purchased or of an impairment loss of those assets, the investor shall recognize its share in those losses.
33. The gain or loss resulting from the contribution of non-monetary assets that do not constitute an operation, as defined in IPSAS 40, to an associate or a joint venture in exchange for an equity interest in that associate or joint venture shall be accounted for in accordance with paragraph 31, except when the contribution lacks commercial substance, as that term is described in IPSAS 45, *Property, Plant, and Equipment*. If such a contribution lacks commercial substance, the gain or loss is regarded as unrealized and is not recognized unless paragraph 34 also applies. Such unrealized gains and losses shall be eliminated against the investment accounted for using the equity method and shall not be presented as deferred gains or losses in the entity's consolidated statement of financial position or in the entity's statement of financial position in which investments are accounted for using the equity method.
34. If, in addition to receiving an equity interest in an associate or a joint venture, an entity receives monetary or non-monetary assets, the entity recognizes in full in surplus or deficit the portion of the gain or loss on the contribution relating to the monetary or non-monetary assets received.

- 34A. The gain or loss resulting from a downstream transaction involving assets that constitute an operation, as defined in IPSAS 40, between an entity (including its consolidated controlled entities) and its associate or joint venture is recognized in full in the investor's financial statements.
- 34B. An entity might sell or contribute assets in two or more arrangements (transactions). When determining whether assets that are sold or contributed constitute an operation, as defined in IPSAS 40, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction in accordance with the requirements in paragraph 53 of IPSAS 35.
35. An investment is accounted for using the equity method from the date on which it becomes an associate or a joint venture. On acquisition of the investment, any difference between the cost of the investment and the entity's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as follows:
- (a) When an entity has included goodwill relating to an associate or a joint venture in the carrying amount of the investment, amortization of that goodwill is not permitted.
 - (b) Any excess of the entity's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as revenue in the determination of the entity's share of the associate or joint venture's surplus or deficit in the period in which the investment is acquired.

Appropriate adjustments to the entity's share of the associate's or joint venture's surplus or deficit after acquisition are made in order to account, for example, for depreciation of the depreciable assets based on their fair values at the acquisition date. Similarly, appropriate adjustments to the entity's share of the associate's or joint venture's surplus or deficit after acquisition are made for impairment losses such as for property, plant and equipment or, where relevant, goodwill.

36. **The most recent available financial statements of the associate or joint venture are used by the entity in applying the equity method. When the end of the reporting period of the entity is different from that of an associate or a joint venture the entity either:**
- (a) **Obtains, for the purpose of applying the equity method, additional financial information as of the same date as the financial statements of the entity; or**
 - (b) **Uses the most recent financial statements of the associate or joint venture adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the entity's financial statements.**
37. **The entity's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances.**
38. Except as described in paragraph 39, if an associate or a joint venture uses accounting policies other than those of the entity for like transactions and events in similar circumstances, adjustments shall be made to make the associate's or joint venture's accounting policies conform to those of the entity when the associate's or joint venture's financial statements are used by the entity in applying the equity method.
39. **Notwithstanding the requirements in paragraph 38, if an entity has an interest in an associate or a joint venture that is an investment entity, the entity shall, when applying the equity method, retain the fair value measurement applied by that investment entity associate or joint venture to its interest in controlled entities.**
40. If an associate or a joint venture has outstanding cumulative preference shares that are held by parties other than the entity and are classified as equity, the entity computes its share of surplus or deficit after adjusting for the dividends on such shares, whether or not the dividends have been declared.
41. If an entity's share of the deficit of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the entity discontinues recognizing its share of further deficits. The interest in an associate

or a joint venture is the carrying amount of the investment in the associate or joint venture determined using the equity method together with any long-term interests that, in substance, form part of the entity's net investment in the associate or joint venture. For example, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that associate or joint venture. Such items may include preference shares and long-term receivables or loans, but do not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists, such as secured loans. Deficits recognized using the equity method in excess of the entity's investment in ordinary shares are applied to the other components of the entity's interest in an associate or a joint venture in the reverse order of their seniority (i.e. priority in liquidation).

42. After the entity's interest is reduced to zero, additional deficits are provided for, and a liability is recognized, only to the extent that the entity has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. If the associate or joint venture subsequently reports surpluses, the entity resumes recognizing its share of those surpluses only after its share of the surpluses equals the share of deficits not recognized.

Impairment Losses

43. After application of the equity method, including recognizing the associate's or joint venture's deficits in accordance with paragraph 41, the entity applies paragraphs 44A–44C to determine whether there is any objective evidence that its net investment in the associate or joint venture is impaired.
44. [Deleted]
- 44A. The net investment in an associate or joint venture is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the net investment (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows from the net investment that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognized. Objective evidence that the net investment is impaired includes observable data that comes to the attention of the entity about the following loss events:
- (a) Significant financial difficulty of the associate or joint venture;
 - (b) A breach of contract, such as a default or delinquency in payments by the associate or joint venture;
 - (c) The entity, for economic or legal reasons relating to its associate's or joint venture's financial difficulty, granting to the associate or joint venture a concession that the entity would not otherwise consider;
 - (d) It becoming probable that the associate or joint venture will enter bankruptcy or other financial reorganization; or
 - (e) The disappearance of an active market for the net investment because of financial difficulties of the associate or joint venture.
- 44B. The disappearance of an active market because the associate's or joint venture's equity or financial instruments are no longer publicly traded is not evidence of impairment. A downgrade of an associate's or joint venture's credit rating or a decline in the fair value of the associate or joint venture, is not of itself, evidence of impairment, although it may be evidence of impairment when considered with other available information.
- 44C. In addition to the types of events in paragraph 44A, objective evidence of impairment for the net investment in the equity instruments of the associate or joint venture includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which

the associate or joint venture operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

45. Whenever application of paragraphs 44A–44C indicates that the investment in an associate or a joint venture may be impaired, an entity applies IPSAS 26, *Impairment of Cash-Generating Assets*, and possibly, IPSAS 21, *Impairment of Non-Cash-Generating Assets*.
46. IPSAS 26 directs an entity to determine the value in use of the cash-generating investment. In determining the value in use of the cash-generating investment in accordance with IPSAS 26, an entity estimates:
- (a) Its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate or joint venture and the proceeds from the ultimate disposal of the investment; or
 - (b) The present value of the estimated future cash flows expected to arise from dividends or similar distributions to be received from the investment, and from its ultimate disposal.

Using appropriate assumptions, both methods give the same result.

47. IPSAS 21 requires that, if the recoverable service amount of an asset is less than its carrying amount, the carrying amount shall be reduced to its recoverable service amount. Recoverable service amount is the higher of an asset's fair value, less costs to sell and its value in use. Value in use of a non-cash-generating asset is defined as the present value of the asset's remaining service potential. The present value of the remaining service potential may be assessed using the depreciated replacement cost approach, the restoration cost approach or the service units approach, as appropriate.
48. **The recoverable amount of an investment in an associate or a joint venture shall be assessed for each associate or joint venture, unless the associate or joint venture does not generate cash inflows from continuing use that are largely independent of those from other assets of the entity.**

Separate Financial Statements

49. **An investment in an associate or a joint venture shall be accounted for in the entity's separate financial statements in accordance with paragraph 12 of IPSAS 34, *Separate Financial Statements*.**

Transitional Provisions

50. The transitional provisions for changing from proportionate consolidation to the equity method, or from the equity method to accounting for assets and liabilities in respect of a joint operation are set out in IPSAS 37.

Effective Date and Transition

51. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2017, it shall disclose that fact and apply IPSAS 34, IPSAS 35, IPSAS 37, and IPSAS 38, *Disclosure of Interests in Other Entities*, at the same time.**
- 51A. **Paragraphs 6 and 7 were deleted by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**
- 51B. **Paragraph 26 was amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a**

period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.

- 51C. Paragraphs 31 and 33 were amended and paragraphs 34A and 34B added by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments prospectively for annual financial statements covering periods beginning on or after a date to be determined by the IPSASB. Earlier application is permitted. If an entity applies the amendments for a period earlier, it shall disclose that fact and, if it has not already done so, apply IPSAS 40 at the same time.
- 51D. Paragraphs 20, 24, 25, 26, 43, 44 and 45 were amended and paragraphs 44A, 44B and 44C were added by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.
- 51E. Paragraph 24 was amended by *Improvements to IPSAS, 2018*, issued in October 2018. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is permitted. If an entity applies this amendment for a period beginning before January 1, 2019, it shall disclose that fact.
- 51F. Paragraph 20A was added and paragraph 44 deleted by *Long-term Interests in Associates and Joint Ventures (Amendments to IPSAS 36)* and *Prepayment Features with Negative Compensation (Amendments to IPSAS 41)*, issued in January 2019. An entity shall apply these amendments retrospectively in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, for annual financial statements covering periods beginning on or after January 1, 2023, except as specified in paragraphs 51G–51I. Earlier application is permitted. If an entity applies these amendments for a period beginning before January 1, 2023, it shall disclose that fact and apply IPSAS 41 at the same time.
- 51G. An entity that first applies the amendments in paragraph 51F at the same time it first applies IPSAS 41 shall apply the transition requirements in IPSAS 41 to the long-term interests described in paragraph 20A.
- 51H. An entity that first applies the amendments in paragraph 51F after it first applies IPSAS 41 shall apply the transition requirements in IPSAS 41 necessary for applying the requirements set out in paragraph 20A to long-term interests. For that purpose, references to the date of initial application in IPSAS 41 shall be read as referring to the beginning of the annual reporting period in which the entity first applies the amendments (the date of initial application of the amendments). The entity is not required to restate prior periods to reflect the application of the amendments. The entity may restate prior periods only if it is possible without the use of hindsight.
- 51I. If an entity does not restate prior periods applying paragraph 51H, at the date of initial application of the amendments it shall recognize in the opening accumulated surplus or deficit (or other component of net assets/equity, as appropriate) any difference between:
- (a) The previous carrying amount of long-term interests described in paragraph 20A at that date; and
 - (b) The carrying amount of those long-term interests at that date.
- 51J. Paragraph 21 was amended and paragraphs 25A and 25B and the related heading were added by IPSAS 44 issued in May 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity

applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 44 at the same time.

- 51K. **Paragraph 33 was amended by IPSAS 45 issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or at after January 1, 2025. Earlier application is encouraged. If an entity applies this amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**
52. When an entity adopts the accrual basis IPSAS as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS.

Withdrawal and Replacement of IPSAS 7 (December 2006)

53. This Standard supersedes IPSAS 7, *Investments in Associates* (December 2006). IPSAS 7 remains applicable until IPSAS 36 is applied or becomes effective, whichever is earlier.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 36.

Objective

- BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching its conclusions on IPSAS 36. As this Standard is based on IAS 28, *Investments in Associates and Joint Ventures* (Amended in 2011, including amendments up to December 31, 2014) issued by the IASB, the Basis for Conclusions outlines only those areas where IPSAS 36 departs from the main requirements of IAS 28 (Amended in 2011), or where the IPSASB considered such departures.

Overview

- BC2. In 2012 the IPSASB commenced work on a project to update those IPSAS that dealt with accounting for interests in controlled entities, associates and joint ventures. In October 2013 the IPSASB issued Exposure Drafts (EDs) 48 to 52 which were collectively referred to as *Interests in Other Entities*. ED 50, *Investments in Associates and Joint Ventures*, was based on IAS 28 (Amended in 2011), having regard to the relevant public sector modifications in IPSAS 7, *Investments in Associates* and IPSAS 8, *Interests in Joint Ventures*. In January 2015 the IPSASB issued five new IPSAS, including IPSAS 36. These new IPSAS supersede IPSAS 6, *Consolidated and Separate Financial Statements*, IPSAS 7 and IPSAS 8.
- BC3. As a result of combining the accounting for associates and joint ventures the title of the Standard was changed to *Investments in Associates and Joint Ventures*.
- BC4. In drafting IPSAS 36 the Board did not reconsider all the requirements of IPSAS 7, *Investments in Associates*. The most significant changes resulted from the decision to require the use of the equity method to account for investments in joint ventures and therefore to combine the accounting for investments in associates and joint ventures in one standard. The Board's views on the use of the equity method to account for investments in joint ventures are discussed in the Basis for Conclusions on IPSAS 37.

Scope

Quantifiable Ownership Interests

- BC5. The IPSASB noted that the scope of IPSAS 7 had been limited to investments in associates "where the investment in the associate leads to the holding of an ownership interest in the form of a shareholding or other formal equity structure". In developing IPSAS 7 the IPSASB noted that it is unlikely equity accounting could be applied unless the associate had a formal or other reliably measurable equity structure. The IPSASB reflected on the intention of this modification and concluded that it was intended to prevent the inappropriate application of that Standard to interests other than ownership interests.
- BC6. In contrast with IPSAS 7 this Standard applies to both associates and joint ventures. Because joint ventures can take many forms, including partnership arrangements which do not have formal equity structures, the scope limitation in IPSAS 7 was not appropriate. The IPSASB decided that the scope of this Standard should be limited to "quantifiable ownership interests". Respondents supported this proposal, but considered that disclosure of information about an entity's non-quantifiable ownership interests in other entities would be appropriate. The IPSASB agreed that IPSAS 38, *Disclosure of Interests in Other Entities* should require the disclosure of non-quantifiable ownership interests.

Temporary Joint Control and Significant Influence

- BC7. IPSAS 7 and IPSAS 8, *Interests in Joint Ventures*, did not require application of the equity method or proportionate consolidation when joint control of, or significant influence over, another entity was intended to

be temporary. The IPSASB noted that the IASB had removed these exemptions from the equivalent IFRS in 2003, as a consequence of issuing IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*.

- BC8. The IPSASB noted that in developing IPSAS 35, *Consolidated Financial Statements*, it had considered the related issue of whether to incorporate a temporary control exemption in that Standard, and had agreed not to do so. Accordingly, the IPSASB decided not to provide exemptions based on temporary joint control or temporary significant influence in IPSAS 36.

Significant Influence

- BC9. The Standard establishes a presumption that an entity has significant influence over an investee if an entity holds an ownership interest in the form of a shareholding or other formal equity structure and holds, directly, or indirectly, (e.g., through controlled entities) 20 per cent or more of the voting power of an investee. The IPSASB noted that the use of 20 percent in establishing a presumption of significant influence came initially from IAS 28 and had also been used in IPSAS 7 (December 2006). In deciding to retain this presumption in the Standard, the IPSASB noted that it was unaware of any public sector reason to use an amount other than 20 per cent.

Uniform Reporting Dates

- BC10. The IPSASB considered whether to impose a time limit on the difference between the end of the reporting period of the entity and associate or joint venture of the entity. The IPSASB noted that IAS 28 requires that the most recent available financial statements of the associate or joint venture be used by an entity in applying the equity method and requires adjustments when they are not the same. In addition, IAS 28 limits the difference in dates to three months. The IPSASB noted that there may be instances in the public sector where entities have different reporting dates and it may not be possible to change those dates. The IPSASB agreed not to impose a three month limit on the difference in dates.

Investment Entities

- BC11. Some respondents to ED 50 requested that the IPSASB clarify the application of the equity method by investment entities and by investors with investments in an associate or a joint venture that is an investment entity. Accordingly, the IPSASB:
- (a) Clarified that an investment entity will, by definition, have elected to account for investments in associates and joint ventures at fair value through surplus or deficit in accordance with IPSAS 41; and
 - (b) Required that an entity with an interest in an investment entity associate or an investment entity joint venture, shall, when applying the equity method, retain the fair value measurement applied by that investment entity associate or investment entity joint venture to its interests in controlled entities.
- BC12. The IPSASB noted that IASB constituents had also sought clarification of some aspects of the accounting for investments in investment entity associates and investment entity joint ventures. The IASB issued ED 2014/2 *Investment Entities—Applying the Consolidation Exception (Proposed amendments to IFRS 10 and IAS 28)* in June 2014 and subsequently issued *Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)* in December 2014. The IPSASB considered that these clarifications were helpful in addressing implementation issues identified by early adopters of the IASB's investment entity requirements and incorporated those aspects of the amendments that were relevant to this Standard.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

- BC13. At the time that IPSAS 36 was being developed, the IASB amended IFRS 10 and IAS 28 so that the requirements for the recognition of a partial gain or loss for transactions between an investor and its associate

or joint venture would apply only to the gain or loss resulting from the sale or contribution of assets that do not constitute a business, as defined in IFRS 3, *Business Combinations*. The IASB issued *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28) in September 2014. The IPSASB agreed not to incorporate the requirements introduced by these amendments in IPSAS 35 and IPSAS 36 on the grounds that it would be more appropriate to consider the recognition of full or partial gains and losses in the context of drafting standards-level requirements for public sector combinations.

- BC14. At the time the IPSASB developed ED 60, *Public Sector Combinations*, it reconsidered whether to include guidance on how to account for the sale or contribution of assets between an investor and its associate or joint venture. The IPSASB reviewed the guidance issued by the IASB in *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28). The effect of the IASB's amendments if adopted in IPSAS 36 would be that a partial gain or loss for transactions between an investor and its associate or joint venture would apply only to the gain or loss resulting from the sale or contribution of assets *that do not constitute an operation*. The IPSASB did not identify any public sector reason to depart from the IASB's approach. Consequently, the IPSASB agreed to include this guidance (amended to fit the terminology and definitions in ED 60) in IPSAS 36.
- BC15. In December 2015, the IASB deferred the implementation of the guidance in *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28). This was because the IASB was undertaking further research in this area as part of its project on equity accounting, and it did not want to require entities to change their accounting twice in a short period. In deferring the effective date, the IASB continued to allow early application of the guidance as it did not wish to prohibit the application of better financial reporting. The IPSASB reviewed the decision of the IASB to defer the implementation of this guidance. The IPSASB did not identify any public sector reason to depart from the IASB's approach. Consequently, the IPSASB agreed to include this guidance (amended to fit the terminology and definitions in IPSAS 40) in IPSAS 36, to be applied from a date to be determined by the IPSASB.

Revision of IPSAS 36 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

- BC16. The IPSASB issued *The Applicability of IPSAS* in April 2016. This pronouncement amends references in all IPSAS as follows:
- (a) Removes the standard paragraphs about *The Applicability of IPSAS* to "public sector entities other than GBEs" from the scope section of each Standard;
 - (b) Replaces the term "GBE" with the term "commercial public sector entities", where appropriate; and
 - (c) Amends paragraph 10 of the Preface to International *Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSAS are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

Revision of IPSAS 36 as a result of *Improvements to IPSAS, 2018*

- BC17. The IPSASB reviewed the revisions to IAS 28, *Investments in Associates and Joint Ventures*, included in *Annual Improvements to IFRS Standards 2014–2016 Cycle* issued by the IASB in December 2016, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions. These amendments clarify that an entity is able to choose between applying the equity method or measuring the investment at fair value for each investment in an associate or joint venture.
- BC18. In respect of an investment in an associate or a joint venture that is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including

investment-linked insurance funds, the IPSASB generally concurred that there was no public sector specific reason for not adopting the amendments.

- BC19. However, in respect of an interest in an associate or a joint venture that is an investment entity, the IPSASB had already determined, in approving IPSAS 36 (and in contrast to the approach taken in IAS 28), to mandate fair value measurement. Consequently, the IPSASB did not adopt the amendments made to IAS 28, paragraph 36A.

Revision of IPSAS 36 as a result of *Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) and *Prepayment Features with Negative Compensation* (Amendments to IPSAS 41)

- BC20. The IPSASB reviewed the revisions to IAS 28, *Investments in Associates and Joint Ventures*, included in *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28) issued by the IASB in October 2017, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions, and concurred that there was no public sector specific reason for not adopting the amendments.

Revision of IPSAS 36 as a result of COVID-19: Deferral of Effective Dates

- BC21. The IPSASB published *Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) and *Prepayment Features with Negative Compensation* (Amendments to IPSAS 41) in January 2019. At the time these amendments were finalized, the Board decided that an entity shall apply them for annual financial statements covering periods beginning on or after January 1, 2022.
- BC22. In June 2020, the IPSASB discussed the effect of the COVID-19 pandemic on financial reporting. The Board noted that the pandemic has created significant pressures on the resources public sector entities might otherwise allocate to the implementation of these amendments.
- BC23. The Board concluded that deferral during a time of significant disruption would provide much-needed operational relief to public sector entities. Therefore, the Board decided to propose a one-year deferral of the effective date of these amendments.
- BC24. The Board did not propose any changes to the amendments other than the deferral of the effective date. Earlier application of the amendments will continue to be permitted.

ILLUSTRATIVE EXAMPLE—LONG-TERM INTERESTS IN ASSOCIATES AND JOINT VENTURES

This example accompanies, but is not part of, IPSAS 36.

This example portrays a hypothetical situation illustrating how an entity (investor) accounts for long-term interests that, in substance, form part of the entity's net investment in an associate (long-term interests) applying IPSAS 41, *Financial Instruments*, and IPSAS 36 based on the assumptions presented. The entity applies IPSAS 41 in accounting for long-term interests. The entity applies IPSAS 36 to its net investment in the associate, which includes long-term interests. The analysis in this example is not intended to represent the only manner in which the requirements in IPSAS 36 could be applied.

Assumptions

The investor has the following three types of interests in the associate:

- a) Shares—ordinary shares representing a 40% ownership interest to which the investor applies the equity method. This interest is the least senior of the three interests, based on their relative priority in liquidation.
- b) P Shares—non-cumulative preference shares that form part of the net investment in the associate and that the investor measures at fair value through surplus or deficit applying IPSAS 41.
- c) LT Loan—a long-term loan that forms part of the net investment in the associate and that the investor measures at amortized cost applying IPSAS 41 with a stated interest rate and an effective interest rate of 5% a year. The associate makes interest-only payments to the investor each year. The LT Loan is the most senior of the three interests.

The LT Loan is not an originated credit-impaired loan. Throughout the years illustrated, there has not been any objective evidence that the net investment in the associate is impaired applying IPSAS 36, nor does the LT Loan become credit-impaired applying IPSAS 41.

The associate does not have any outstanding cumulative preference shares classified as equity, as described in paragraph 40 of IPSAS 36. Throughout the years illustrated, the associate neither declares nor pays dividends on O Shares or P Shares.

The investor has not incurred any legal or constructive obligations, nor made payments on behalf of the associate, as described in paragraph 42 of IPSAS 36. Accordingly, the investor does not recognize its share of the associate's deficits once the carrying amount of its net investment in the associate is reduced to zero.

The amount of the investor's initial investment in O Shares is CU200, in P Shares is CU100 and in the LT Loan is CU100. On acquisition of the investment, the cost of the investment equals the investor's share of the net fair value of the associate's identifiable assets and liabilities.

This table summarizes the carrying amount at the end of each year for P Shares and the LT Loan applying IPSAS 41 but before applying IPSAS 36, and the associate's surplus (deficit) for each year. The amounts for the LT Loan are shown net of the loss allowance.

At the end of	P Shares applying IPSAS 41 (fair value)	LT Loan applying IPSAS 41 (amortized cost)	Surplus (deficit) of the associate
Year 1	CU110	CU90	CU50
Year 2	CU90	CU70	CU(200)
Year 3	CU50	CU50	CU(500)

Year 4	CU40	CU50	CU(150)
Year 5	CU60	CU60	–
Year 6	CU80	CU70	CU500
Year 7	CU110	CU90	CU500

Analysis

Year 1

The investor recognizes the following in Year 1:

Investments in the associate:

Dr. O Shares	CU200	
Dr. P Shares	CU100	
Dr. LT Loan	CU100	
Cr. Cash		CU400

To recognize the initial investment in the associate

Dr. P Shares	CU10	
Cr. Surplus or deficit		CU10

To recognize the change in fair value (CU110 – CU100)

Dr. Surplus or deficit	CU10	
Cr. Loss allowance (LT Loan)		CU10

To recognize an increase in the loss allowance (CU90 – CU100)

Dr. O Shares	CU20	
Cr. Surplus or deficit		CU20

To recognize the investor's share of the associate's surplus (CU50 × 40%)

At the end of Year 1, the carrying amount of O Shares is CU220, P Shares is CU110 and the LT Loan (net of loss allowance) is CU90.

Year 2

The investor recognizes the following in Year 2:

Dr. Surplus or deficit	CU20	
Cr. P Shares		CU20

To recognize the change in fair value (CU90 – CU110)

Dr. Surplus or deficit	CU20	
Cr. Loss allowance (LT Loan)		CU20

To recognize an increase in the loss allowance (CU70 – CU90)

Dr. Surplus or deficit	CU80	
Cr. O Shares		CU80

To recognize the investor's share of the associate's deficit (CU200 × 40%)

At the end of Year 2, the carrying amount of O Shares is CU140, P Shares is CU90 and the LT Loan (net of loss allowance) is CU70.

Year 3

Applying paragraph 20A of IPSAS 36, the investor applies IPSAS 41 to P Shares and the LT Loan before it applies paragraph 41 of IPSAS 36. Accordingly, the investor recognizes the following in Year 3:

Dr. Surplus or deficit	CU40	
Cr. P Shares		CU40

To recognize the change in fair value (CU50 – CU90)

Dr. Surplus or deficit	CU20	
Cr. Loss allowance (LT Loan)		CU20

To recognize an increase in the loss allowance (CU50 – CU70)

Dr. Surplus or deficit	CU200	
Cr. O Shares		CU140
Cr. P Shares		CU50
Cr. LT Loan		CU10

To recognize the investor's share of the associate's deficit in reverse order of seniority as specified in paragraph 41 of IPSAS 36 (CU500 × 40%)

At the end of Year 3, the carrying amount of O Shares is zero, P Shares is zero and the LT Loan (net of loss allowance) is CU40.

Year 4

Applying IPSAS 41 to its interests in the associate, the investor recognizes the following in Year 4:

Dr. Surplus or deficit	CU10	
Cr. P Shares		CU10

To recognize the change in fair value (CU40 – CU50)

Recognition of the change in fair value of CU10 in Year 4 results in the carrying amount of P Shares being negative CU10. Consequently, the investor recognizes the following to reverse a portion of the associate's deficits previously allocated to P Shares:

Dr. P Shares	CU10	
Cr. Surplus or deficit		CU10

To reverse a portion of the associate's deficits previously allocated to P Shares

Applying paragraph 41 of IPSAS 36, the investor limits the recognition of the associate's deficits to CU40 because the carrying amount of its net investment in the associate is then zero. Accordingly, the investor recognizes the following:

Dr. Surplus or deficit	CU40	
Cr. LT Loan		CU40

To recognize the investor's share of the associate's deficit

At the end of Year 4, the carrying amount of O Shares is zero, P Shares is zero and the LT Loan (net of loss allowance) is zero. There is also an unrecognized share of the associate's deficits of CU30 (the investor's share of the associate's cumulative deficits of CU340 – CU320 deficits recognized cumulatively + CU10 deficits reversed).

Year 5

Applying IPSAS 41 to its interests in the associate, the investor recognizes the following in Year 5:

Dr. P Shares	CU20	
Cr. Surplus or deficit		CU20
To recognize the change in fair value (CU60 – CU40)		
Dr. Loss allowance (LT Loan)	CU10	
Cr. Surplus or deficit		CU10

To recognize a decrease in the loss allowance (CU60 – CU50)

After applying IPSAS 41 to P Shares and the LT Loan, these interests have a positive carrying amount. Consequently, the investor allocates the previously unrecognized share of the associate's deficits of CU30 to these interests.

Dr. Surplus or deficit	CU30	
Cr. P Shares		CU20
Cr. LT Loan		CU10

To recognize the previously unrecognized share of the associate's deficits

At the end of Year 5, the carrying amount of O Shares is zero, P Shares is zero and the LT Loan (net of loss allowance) is zero.

Year 6

Applying IPSAS 41 to its interests in the associate, the investor recognizes the following in Year 6:

Dr. P Shares	CU20	
Cr. Surplus or deficit		CU20
<i>To recognize the change in fair value (CU80 – CU60)</i>		
Dr. Loss allowance (LT Loan)	CU10	
Cr. Surplus or deficit		CU10

To recognize a decrease in the loss allowance (CU70 – CU60)

The investor allocates the associate's surplus to each interest in the order of seniority. The investor limits the amount of the associate's surplus it allocates to P Shares and the LT Loan to the amount of equity method deficits previously allocated to those interests, which in this example is CU60 for both interests.

Dr. O Shares	CU80	
Dr. P Shares	CU60	
Dr. LT Loan	CU60	
Cr. Surplus or deficit		CU200

To recognize the investor's share of the associate's surplus (CU500 × 40%)

At the end of Year 6, the carrying amount of O Shares is CU80, P Shares is CU80 and the LT Loan (net of loss allowance) is CU70.

Year 7

The investor recognizes the following in Year 7:

Dr. P Shares	CU30	
Cr. Surplus or deficit		CU30

To recognize the change in fair value (CU110 – CU80)

Dr. Loss allowance (LT Loan)	CU20	
Cr. Surplus or deficit		CU20

To recognize a decrease in the loss allowance (CU90 – CU70)

Dr. O Shares	CU200	
Cr. Surplus or deficit		CU200

To recognize the investor's share of the associate's surplus (CU500 × 40%)

At the end of Year 7, the carrying amount of O Shares is CU280, P Shares is CU110 and the LT Loan (net of loss allowance) is CU90.

Years 1–7

When recognizing interest revenue on the LT Loan in each year, the investor does not take account of any adjustments to the carrying amount of the LT Loan that arose from applying IPSAS 36 (paragraph 20A of IPSAS 36). Accordingly, the investor recognizes the following in each year:

Dr. Cash	CU5	
Cr. Surplus or deficit		CU5

To recognize interest revenue on LT Loan based on the effective interest rate of 5%

Summary of amounts recognized in surplus or deficit

This table summarizes the amounts recognized in the investor's surplus or deficit.

Items recognized	Impairment (losses), including reversals, applying IPSAS 41	Gains (losses) of P Shares applying IPSAS 41	Share of surplus (deficit) of the associate recognized applying the equity method	Interest revenue applying IPSAS 41
During				
Year 1	CU(10)	CU10	CU20	CU5
Year 2	CU(20)	CU(20)	CU(80)	CU5
Year 3	CU(20)	CU(40)	CU(200)	CU5
Year 4	–	CU(10)	CU(30)	CU5
Year 5	CU10	CU20	CU(30)	CU5
Year 6	CU10	CU20	CU200	CU5
Year 7	CU20	CU30	CU200	CU5

COMPARISON WITH IAS 28 (AMENDED IN 2011)

IPSAS 36, *Investments in Associates and Joint Ventures* is drawn primarily from IAS 28, *Investments in Associates and Joint Ventures* (Amended in 2011, including amendments up to December 31, 2014). At the time of issuing this Standard, the IPSASB has not considered the applicability to public sector entities of IFRS 9, *Financial Instruments*. References to IFRS 9 in IAS 28 have therefore been replaced by references to the IPSAS dealing with financial instruments.

The main differences between IPSAS 36 and IAS 28 (Amended in 2011) are as follows:

- IPSAS 36 uses different terminology, in certain instances, from IAS 28 (Amended in 2011). The most significant examples are the use of the terms “net assets/equity,” “economic entity,” “controlling entity,” “controlled entity” and “revenue” in IPSAS 36. The equivalent terms in IAS 28 (Amended in 2011) are “equity,” “group,” “parent,” “subsidiary” and “income.”
- IPSAS 36 applies to all investments where the investor has a quantifiable ownership interest. IAS 28 (Amended in 2011) does not contain a similar requirement. However, it is unlikely that equity accounting could be applied unless there was a quantifiable ownership interest.
- Where an entity is precluded by IPSAS 29 from measuring the retained interest in a former associate or joint venture at fair value, IPSAS 36 permits an entity to use carrying amount as the cost on initial recognition of the financial asset. IAS 28 (Amended in 2011) requires that the retained interest be measured at fair value.
- IPSAS 36 requires that an entity with an interest in an associate or a joint venture that is an investment entity, shall, when applying the equity method, retain the fair value measurement applied by that investment entity associate or joint venture to its interest in controlled entities. IAS 28 (Amended in 2011) permits an entity with an interest in an associate or a joint venture that is an investment entity to retain the fair value measurement applied by that investment entity associate or joint venture.