ACCOUNTING STANDARDS BOARD

STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

INVESTMENTS IN ASSOCIATES

(GRAP 7)

Issued by the
Accounting Standards Board

March 2012

Acknowledgement

The Standard of Generally Recognised Accounting Practice (GRAP) on *Investments in Associates* is based on the International Public Sector Accounting Standard (IPSAS) 7 on *Investments in Associates* from the *Handbook of International Public Sector Accounting Pronouncements* of the International Public Sector Accounting Standards Board (IPSASB), published by the International Federation of Accountants (IFAC) and is used with the permission of the IFAC.

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Standard of Generally Recognised Accounting Practice

Investments in Associates

INVESTMENTS IN ASSOCIATES

This Standard was originally issued by the Accounting Standards Board (the Board) in November 2005. Since then, it has been amended by*:*

- Improvements to the Standards of GRAP, issued by the Board in November 2010.
- Amendments resulting from the development of the Standards of GRAP on *Transfer of Functions Between Entities Under Common Control*, *Transfer of Functions Between Entities Not Under Common Control* and *Mergers*.
- Consequential amendments when the following Standards of GRAP became effective:
  - GRAP 21 *Impairment of Non-cash-generating Assets*
  - GRAP 26 *Impairment of Cash-generating Assets*
  - GRAP 104 *Financial Instruments*
- Improvements to the Standards of GRAP, issued by the Board in March 2012.
- Consequential amendments following the revisions to GRAP 100 *Discontinued Operations* in 2013.
- Improvements to the Standards of GRAP, issued by the Board in November 2013.

Introduction

Standards of Generally Recognised Accounting Practice (GRAP)

The Accounting Standards Board (the Board) is required in terms of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA), to determine generally recognised accounting practice referred to as Standards of Generally Recognised Accounting Practice (GRAP).

The Board must determine GRAP for:

(a) departments (including national, provincial and government components);

(b) public entities;

(c) trading entities (as defined in the PFMA);

(d) constitutional institutions;

(e) municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership control of a municipality; and

(f) Parliament and the provincial legislatures.

The above are collectively referred to as "entities" in Standards of GRAP.

The Board has approved the application of International Financial Reporting Standards (IFRS® Standards) issued by the International Accounting Standards Board® for:

(a) public entities that meet the criteria outlined in the Directive on *The Selection of an Appropriate Reporting Framework by Public Entities;* and

(b) entities under the ownership control of any of these entities.

Financial statements should be described as complying with Standards of GRAP only if they comply with all the requirements of each applicable Standard and any related Interpretations of the Standards of GRAP.

Any limitation of the applicability of specific Standards or Interpretations is made clear in those Standards or Interpretations.

This Standard is set out in paragraphs .01 to .55. All paragraphs in this Standard have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This Standard should be read in the context of its objective, its basis for conclusions if applicable, the *Preface to Standards of GRAP,* the *Preface to the Interpretations of the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*.

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Reference may be made here to a Standard of GRAP that has not been issued at the time of issue of this Standard. This is done to avoid having to change the Standards already issued when a later Standard is subsequently issued. Paragraph .11 of the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

.01 This Standard prescribes the accounting treatment for 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 form of interest in the net assets. This Standard generally requires that investments in associates should be accounted for in consolidated financial statements of the investor by using the equity method only when an investor has significant influence in participating in the financial and operating policies of the associate.

.02 The purpose of this Standard is to prescribe the circumstances in which investors should use the equity method, how the equity method is to be applied and requires certain disclosures in respect of investments in associates.

Scope

.03 An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting by an investor for 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 form of interest in the net assets. However, it does not apply to investments in associates held by:

(a) venture capital organisations, or

(b) mutual funds, unit trusts and similar entities including investment-linked insurance funds

that are measured at fair value in accordance with the Standard of GRAP on Financial Instruments (GRAP 104). An entity holding such an investment shall make the disclosures required by paragraph .42(f).

.04 This Standard provides the basis for accounting for ownership interests in associates. That is, the investment in the other entity confers on the investor the risks and rewards incidental to an ownership interest. This Standard applies only to investments in the net assets of an investee. 'Net assets' may comprise share capital or an equivalent form of unitised capital, such as units in a property trust, but may also include other forms of contributed capital in which the investor's interest can be measured reliably. Where the composition of net assets is poorly defined, it may not be possible to obtain a reliable measure of the ownership interest.

.05 Some contributions made by entities may be referred to as an "investment" but may not give rise to an ownership interest. For example, an entity may make a substantial investment in the development of a hospital that is owned and operated by a non-profit organisation. Whilst such contributions are non-reciprocal in nature, they allow the entity to participate in the operation of the hospital, and the non-profit organisation is accountable to the entity for its use of public monies. However, the contributions made by the entity do not constitute an ownership interest, as the non-profit organisation could seek alternative funding and thereby prevent the entity from participating in the operation of the hospital. Accordingly, the entity is not exposed to the risks nor does it enjoy the rewards that are incidental to an ownership interest.

Definitions

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

***Associate** is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a controlled entity nor an interest in a joint venture.*

***Consolidated financial statements** are the financial statements of an economic entity presented as those of a single entity.*

***Control** is the power to govern the financial and operating policies of another entity so as to benefit from its activities.*

***Controlled entity** is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the controlling entity).*

***Controlling entity** is an entity that has one or more controlled entities.*

***Equity method** is a method of accounting whereby the investment in an associate or interest in a jointly controlled entity is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's or venturer's share of net assets of the jointly controlled entity. The surplus or deficit of the investor or venturer includes the investor's or venturer's share of the surplus or deficit of the investee or jointly controlled entity.*

***Joint control** is the agreed sharing of control over an activity by a binding arrangement and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).*

***Separate financial statements** are those presented by a controlling entity, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct interest in the net assets rather than on the basis of the reported results and net assets of the investees.*

***Significant influence** is the power to participate in the financial and operating policy decisions of an activity, but is not control or joint control over those policies.*

Terms defined in other Standards of GRAP are used in this Standard with the same meaning as in those other Standards.

Separate financial statements

.07 Financial statements in which the equity method is applied are not separate financial statements, nor are the financial statements of an entity that does not have a controlled entity, associate or venturer's interest in a joint venture.

.08 Separate financial statements are those presented in addition to consolidated financial statements, financial statements in which investments are accounted for using the equity method and financial statements in which venturers' interests in joint ventures are proportionately consolidated. Separate financial statements may or may not be appended to, or accompany, those financial statements.

.09 Entities that are exempted from:

- consolidation in accordance with paragraph .15 of the Standard of GRAP on *Consolidated and Separate Financial Statements* (GRAP 6);
- applying proportionate consolidation in accordance with paragraph .05 of the Standard of GRAP on *Interests in Joint Ventures* (GRAP 8); or
- applying the equity method in accordance with paragraph .18(b);

may present separate financial statements as their only financial statements.

Significant influence

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

.11 Whether an investor has significant influence over the investee is a matter of judgement 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 an ownership interest.

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

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

(b) participation in policy-making processes, including participation in decisions about dividends or similar distributions;

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

(d) interchange of managerial personnel; and/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 reduce another party's voting power over the financial and operating policies of another entity (i.e. potential voting rights). The existence and the 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 arrangements whether considered individually or in combination) that affect potential rights, except the intention of management and the financial ability to exercise or convert.

.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 a government, court, administrator or regulator. It could also occur as a result of a binding agreement.

Equity method

.16 Under the equity method, the investment in an associate is initially recorded at cost (including transaction costs directly attributable to the acquisition of the investment) and the carrying amount is increased or decreased to recognise the investor's share of surplus or deficit of the investee after the date of acquisition. The investor's share of the surplus or deficit of the investee is recognised 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 net assets that have not been recognised in the investee's surplus of deficit. Such changes include those arising from the revaluation of property, plant, equipment and from foreign exchange translation differences. The investor's share of those changes is recognised directly in net assets of the investor.

.17 When potential voting rights exist, the investor's share of surplus or deficit of the investee and of changes in the investee's net assets is determined on the basis of present ownership interests and does not reflect the possible exercise or conversion of potential voting rights.

Application of the equity method

.18 An investment in an associate shall be accounted for using the equity method except when:

(a) the exception in paragraph .15 of GRAP 6, allowing a controlling entity that also has an investment in an associate not to present consolidated financial statements, applies; or

(b) all of the following apply:

(i) the investor is:

- ***a wholly-owned controlled entity, and users of financial statements prepared by applying the equity method are unlikely to exist or their information needs are met by the controlling entity's consolidated financial statements; or***
- ***a partially-owned controlled entity of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the investor not applying the equity method;***

(ii) the investor'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);

(iii) the investor did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation, for the purpose of issuing any class of instruments in a public market; and

(iv) the ultimate or any intermediate controlling entity of the investor produces consolidated financial statements available for public use that comply with Standards of GRAP.

.19 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 because the distributions received may bear little relation to the performance of the associate. In particular, where the associate has service objectives, investment performance will be determined by factors such as the cost of outputs and overall service delivery. Because the investor has significant influence over the associate, the investor has an interest in the associate'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 surpluses or deficits of such an associate. As a result, application of the equity method provides more informative reporting of the net assets and surplus or deficit of the investor.

.20 An investor shall discontinue the use of the equity method from the date that it ceases to have significant influence over an associate and shall account for the investment in accordance with GRAP 104 from that date, provided the associate does not become a controlled entity or a joint venture as defined in GRAP 8. On the loss of significant influence, the investor shall measure at fair value any investment the investor retains from the former associate. The investor shall recognise in surplus or deficit any difference between:

(a) the fair value of any retained investment and any proceeds from disposing of the part interest in the associate; and

(b) the carrying amount of the investment at the date when significant influence is lost.

.21 The carrying amount of the investment at the date that it ceases to be an associate shall be regarded as its fair value on initial recognition as a financial asset in accordance with GRAP 104.

.22 If an investor loses significant influence over an associate, the investor shall account for all amounts recognised in net assets in relation to that associate on the same basis as would be required if the associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in net assets by an associate is required to be reclassified to surplus or deficit on the disposal of the related assets or liabilities, the investor reclassifies the gain or loss from net assets to surplus or deficit (as a reclassification adjustment) when it loses significant influence over the associate. If an investor's ownership interest in an associate is reduced, but the investment continues to be an associate, the investor shall reclassify to surplus or deficit only a proportionate amount of the gain or loss previously recognised in net assets.

.23 Many of the procedures appropriate for the application of the equity method are similar to the consolidation procedures prescribed in GRAP 6. Furthermore, the concepts underlying the procedures used in the accounting for the acquisition of a controlled entity are also adopted in accounting for the acquisition of an investment in an associate.

.24 An economic entity's share in an associate is the aggregate of the holdings in that associate 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 has controlled entities, associates, or joint ventures, the surpluses or deficits and net assets taken into account in applying the equity method are those recognised in the associate's financial statements (including the associate'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 .29 and .30).

.25 Surpluses and deficits resulting from 'upstream' and 'downstream' transactions between an investor (including its consolidated controlled entities) and an associate are recognised in the investor's financial statements only to the extent of unrelated investors' interests in the associate. 'Upstream' transactions are, for example, sales of assets from an associate to the investor. 'Downstream' transactions are, for example, sales of assets from the investor to an associate. The investor's share in the associate's surpluses and deficits resulting from these transactions is eliminated.

.26 An investment in an associate is accounted for using the equity method from the date on which it becomes an associate. On acquisition of the investment any difference (whether positive or negative) between the cost of the investment and the investor's share of the net fair value of the associate's identifiable assets and liabilities is accounted for in accordance with the Standard of GRAP on *Transfer of Functions Between Entities Not Under Common Control* (GRAP 106). Appropriate adjustments to the investor's share of the associate's surpluses or deficits after acquisition are also made to account, for example, for depreciation of the depreciable assets, based on their fair values at the date of acquisition. Similarly, appropriate adjustments to the investor's share of the associate's surpluses or deficits after acquisition are made for impairment losses recognised by the associate, such as property, plant and equipment.

.27 The most recent available financial statements of the associate are used by the investor in applying the equity method. When the end of the reporting period of the investor is different from that of the associate, the associate prepares, for the use of the investor, financial statements as of the same date as the financial statements of the investor unless it is impracticable to do so.

.28 When, in accordance with paragraph .27, the financial statements of an associate used in applying the equity method are prepared as of a different date from that of the investor, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the investor's financial statements. In any case, the difference between the end of the reporting period of the associate and that of the investor shall be no more than three months. The length of the reporting periods and any difference between the ends of the reporting periods shall be the same from period to period.

.29 The investor's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances.

.30 If an associate uses accounting policies other than those of the investor for like transactions and events in similar circumstances, adjustments shall be made to conform the associate's accounting policies to those of the investor when the associate's financial statements are used by the investor in applying the equity method.

.31 If an associate has outstanding cumulative preference shares that are held by parties other than the investor and classified as net assets, the investor computes its share of surpluses or deficits after adjusting for the dividends or similar distributions on such shares, whether or not the dividends or similar distributions have been declared**.**

.32 If an investor's share of losses of an associate equals or exceeds its interest in the associate, the investor discontinues recognising its share of further losses. The interest in an associate is the carrying amount of the investment in the associate under the equity method together with any long-term interests that, in substance, form part of the investor's net investment in the associate. 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. Such items may include preference shares and long-term receivables or loans but do not include current receivables, current payables or any long-term receivables for which adequate collateral exists, such as secured loans. Losses recognised under the equity method in excess of the investor's investment in ordinary shares are applied to the other components of the investor's interest in an associate in the reverse order of their seniority (i.e. priority in liquidation).

.33 After the investor's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports surpluses, the investor resumes recognising its share of those surpluses only after its share of the surpluses equals the share of losses not recognised.

Impairment losses

.34 After application of the equity method, including recognising the associate's losses in accordance with paragraph .32, the investor applies the requirements of GRAP 104 to determine whether it is necessary to recognise any additional impairment loss with respect to the investor's net investment in the associate.

.35 The investor also applies the requirements of GRAP 104 to determine whether any additional impairment loss is recognised with respect to the investor's interest in the associate that does not constitute part of the net investment and the amount of that impairment loss.

.36 The entire carrying amount of an investment is tested for impairment in accordance with the Standards of GRAP on *Impairment of Cash-generating Assets* (GRAP 26) or *Impairment of Non-cash-generating Assets* (GRAP 21) for impairment as a single amount, by comparing its recoverable amount or recoverable service amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of the requirements in GRAP 104 indicates that the investment may be impaired. An impairment loss recognised in those circumstances is not allocated to any asset that forms part of the carrying amount of the investment in the associate. Accordingly, any reversal of that impairment loss is recognised in accordance with GRAP 26 and GRAP 21 to the extent that the recoverable service amount or recoverable amount of the investment subsequently increases.

.37 In determining the value in use of a cash-generating investment, an entity estimates:

(a) its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate 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.

Under appropriate assumptions, both methods give the same result. Any resulting impairment loss for the investment is allocated in accordance with GRAP 26 and GRAP 21.

.38 In determining the value in use if a non-cash-generating investment, an entity estimates the present value of the remaining service potential of investment using the approaches specified in GRAP 21.

.39 The recoverable amount or recoverable service amount of an investment in an associate is assessed for each associate, unless the associate does not generate cash inflows or service potential from continuing use that are largely independent of those from other assets of the entity.

Separate financial statements

.40 An investment in an associate shall be accounted for in the investor's separate financial statements in accordance with paragraphs .59 to .64 of GRAP 6.

.41 This Standard does not mandate which entities produce separate financial statements available for public use.

Disclosure

.42 The following disclosures shall be made:

(a) the fair value of investments in associates for which there are published price quotations;

(b) summarised financial information of associates, including the aggregated amounts of assets, liabilities, revenues and surplus or deficit;

(c) the reasons why the presumption that an investor does not have

significant influence is overcome if the investor holds, directly or indirectly through controlled entities, less than 20 per cent of the voting or potential voting power of the investee but concludes that it has significant influence;

(d) the reasons why the presumption that an investor has significant influence is overcome if the investor holds, directly or indirectly through controlled entities, 20 per cent or more of the voting or potential voting power of the investee but concludes that it does not have significant influence;

(e) the end of the reporting period of the financial statements of an associate, when such financial statements are used in applying the equity method and are, as of a date or for a period that is different from that of the investor, and the reason for using a different date or different period;

(f) the nature and extent of any significant restrictions (e.g. resulting from borrowing arrangements or regulatory requirements) on the ability of associates to transfer funds to the investor in the form of cash dividends or distributions, or repayment of loans or advances;

(g) the unrecognised share of losses of an associate, both for the period and cumulatively, if an investor has discontinued recognition of its share of losses of an associate;

(h) a list of significant associates and principal activities;

(i) the fact that an associate is not accounted for using the equity method in accordance with paragraph .18;

(j) a description of any investments in associates that are required exclusively with a view to their subsequent disposal, the rationale for such an acquisition, as well as a description of the intended disposal; and

(k) summarised financial information of associates, either individually or in groups, that are not accounted for using the equity method, including the amounts of total assets, total liabilities, revenues and surplus or deficit.

.43 The following information shall be disclosed on an aggregate basis:

(a) the movements in carrying value (beginning and end of the period), new investments, disposals, share of total revenue and expenses, dividends or similar distributions and other movements; and

(b) where adjustments to eliminate the effect of different accounting policies cannot be made, the nature of the differences.

.44 Investments in associates accounted for using the equity method shall be classified as non-current assets. The investor's share of the surplus or deficit~~s~~ of such associates and the carrying amount of these investments shall be separately disclosed. The investor's share of any discontinued

operations shall also be separately disclosed.

.45 The Standard of GRAP on *Presentation of Financial Statements* (GRAP 1) also requires the share of surpluses or deficits of associates accounted for using the equity method of accounting to be presented on the face of the statement of financial performance.

***.46 The investor's share of changes recognised directly in the associate's net assets shall be recognised directly in net assets by the investor and shall be disclosed in the statement of changes in net assets as required by GRAP 1*.**

.47 In accordance with the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets, the investor shall disclose:

(a) its share of the contingent liabilities of an associate incurred jointly with other investors; and

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

Transitional provisions

Initial adoption of the Standards of GRAP

.48 The transitional provisions to be applied by entities on the initial adoption of this Standard are prescribed in a directive(s). The provisions of this Standard should be read in conjunction with each applicable directive.

Amendments to the Standards of GRAP

.49 Paragraphs .03 and .42 were amended by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after 1 April 2015. If an entity elects to apply these amendments earlier, it shall disclose this fact.

.50 The Standard of GRAP on Transfer of Functions Between Entities Under Common Control (GRAP 105), GRAP 106 and the Standard of GRAP on Mergers (GRAP 107) amended paragraphs .20, .26 and .36 and added paragraph .22. An entity shall apply these amendments and addition when it applies GRAP 105, GRAP 106 and GRAP 107.

.51 Paragraph .16 was amended by the Improvements to the Standards of GRAP issued on 1 April 2012. An entity shall apply these amendments prospectively for annual financial periods beginning on or after 1 April 2015. If an entity elects to apply these amendments earlier, it shall disclose this fact.

.52 Any other amendments to the Standards of GRAP shall be applied retrospectively in accordance with the Standard of GRAP on Accounting

Policies, Changes in Estimates and Errors.

Effective date

Initial adoption of the Standards of GRAP

.53 ***An entity shall apply this Standard for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999, as amended.***

Entities already applying Standards of GRAP

.54 ***An entity shall apply amendments to this Standard for annual financial statements covering periods beginning on or after 1 April 2015. Earlier application is encouraged. If an entity applies these amendments for a period beginning before 1 April 2015, it shall disclose that fact.***

Withdrawal of the Standard of GRAP on *Investments in Associates* (2005)

. 55 This Standard supersedes the Standard of GRAP on *Investments in Associates* issued in 2005.

Comparison with the International Public Sector Accounting Standard on *Investments in Associates* (December 2006)

This Standard is drawn primarily from the International Public Sector Accounting Standard on *Investments in Associates* (IPSAS 7). The main differences between this Standard and IPSAS 7 are as follows:

- An objective paragraph has been included in this Standard, whereas IPSAS 7 does not contain one.
- This Standard includes transaction costs in the initial cost of an investment when using the equity method. IPSAS 7 is silent on the treatment of transaction costs on investments in associates and joint ventures accounted for using the equity method.
- The definition of separate financial statements is different to the IPSAS in how this definition refers to an interest in the net assets of an entity.
- IPSAS 7 describes the residual of total assets after deducting total liabilities as "net assets/equity" whereas this Standard refers to "net assets".
- This Standard uses different terminology from IPSAS 7, for example, 'net asset structures' in the IPSAS is referred to as 'contributed capital' in this Standard.
- IPSAS 7 excludes those investments from equity accounting where control is temporary and the asset is to be disposed of in the near future. This Standard requires that they be equity accounted and information about such investments disclosed in financial statements.
- This Standard incorporates the changes made to the International Accounting Standard® on *Investments in Associates* (except those related to comprehensive income in the International Accounting Standard® on *Presentation of Financial Statements* (2007)) as a result of changes made by the International Accounting Standards Board® to the International Accounting Standard® on *Consolidated and Separate Financial Statements*.
- Guidance on the treatment of goodwill related to the acquisition of an associate differs from the guidance prescribed in IPSAS 7.
- This Standard contains additional disclosure requirements adopted from the equivalent New Zealand and United Kingdom Standards to enhance the reported financial information of investments in associates in the investor's financial statements.
- Transitional provisions applicable to this Standard are dealt with differently than in IPSAS 7.
- The appendices with illustrative examples have been deleted from this Standard.