

What is the Equity Method for Associates and Joint Ventures?

Worksheet

Under the equity method, an investment is initially recognized at cost and subsequently adjusted for the investor's share of the investee's profit or loss, less any dividends received.

Questions

1. What ownership percentage typically indicates significant influence?
 - A) Below 5%
 - B) 20%-50%
 - C) Over 50%
 - D) Only 100%
2. An investor owns 20% of an associate, cost \$100,000. The associate's net income is \$40,000, no dividends. What is the carrying value?
 - A) \$100,000
 - B) \$108,000
 - C) \$140,000
 - D) \$40,000
3. Under the equity method, dividends received:
 - A) Increase the carrying value
 - B) Are recognized as investment income
 - C) Reduce the carrying value of the investment
 - D) Have no accounting effect
4. Which standard governs equity accounting for associates and joint ventures?
 - A) IFRS 3
 - B) IAS 28
 - C) IFRS 10
 - D) IAS 2
5. An investor buys 30% of Associate Co for \$150,000. Associate's net income for the year is \$60,000; no dividends are paid. What is the carrying value of the investment?
6. An investor owns 25% of a joint venture, cost \$400,000. The JV reports net income of \$120,000 and pays total dividends of \$80,000.
7. An investor owns 40% of an associate, cost \$250,000. The associate incurs a net loss of \$50,000 and pays no dividends.
8. Define: What is an associate?
9. Define: What is the equity method?
10. Define: How are dividends treated under the equity method?

Answer Key

1. B) 20%-50% - IAS 28 presumes significant influence at 20%-50% ownership, absent evidence to the contrary.
2. B) $\$108,000 - 100,000 + (20\% \ 40,000) = \$108,000$.
3. C) Reduce the carrying value of the investment - Dividends are treated as a partial return of the investment, reducing its carrying value.
4. B) IAS 28 - IAS 28 sets out the equity method for investments in associates and joint ventures.
5. $CV = C + (p \ NI) \ D \ CV = 150,000 + (30\% \ 60,000) \ 0 = 150,000 + 18,000 = \$168,000$
6. $CV = 400,000 + (25\% \ 120,000) \ (25\% \ 80,000) \ CV = 400,000 + 30,000 \ 20,000 = \$410,000$
7. $CV = 250,000 + (40\% \ (50,000)) \ 0 \ CV = 250,000 \ 20,000 = \$230,000$
8. An entity over which the investor has significant influence (typically 20-50% ownership), but not control.
9. A method where the investment is initially recorded at cost and adjusted for the investor's share of profit/loss and dividends received.
10. They reduce the carrying value of the investment - they are not recognized as income.

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