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Ministry of Finance of the Republic of Azerbaijan

**NATIONAL ACCOUNTING STANDARD  
FOR COMMERCIAL ORGANISATIONS №20**

**“Accounting for Associates”**

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# NASCO 20 Accounting for Associates

## GENERAL PROVISIONS

### Purpose of Standard

1. This Standard has been prepared in accordance with the Accounting Law of the Azerbaijan Republic and is based on International Accounting Standard 28 "Accounting for Associates".

### Objective

2. The objective of this Standard is to specify the financial reporting practice to be adopted in the production of financial statements by an entity that has sufficient investments in another entity to qualify that entity to be an Associate but not a subsidiary

### Scope

3. This Standard will be applied by all types of commercial enterprise that prepare financial statements in accordance with Article 10 of the Accounting Law of the Azerbaijan Republic, taking into account the additional provisions contained in the Rules of Accounting.
4. In the case of contradictions between effective normative-legal Acts on accounting regulation and this National Accounting Standard, the National Accounting Standard should be applied.
5. This Standard shall be applied in accounting for investments by an entity in associates. However, it does not apply to investments held by an entity in associates where the holding entity is:
  - (a) venture capital organisations, or
  - (b) mutual funds, unit trusts and similar entities including investment-linked insurance funds that on initial recognition are designated as at fair value through profit or loss or are classified as held for trading. Such investments shall be measured at fair value with changes in fair value recognised in profit or loss in the period of the change.

## Definitions

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

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

The *equity method* is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

*Joint control* is the contractually agreed sharing of control over an economic activity, 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).

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

7. 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.
8. Entities that are exempted from preparing consolidated financial statements in accordance with the provisions of NASCO 19, from applying proportionate consolidation in accordance with the provisions of NASCO 21 or are exempt under paragraph 16(c) of this standard from applying the equity method may present separate financial statements as their only financial statements.

## Significant influence

9. If an investor holds, directly or indirectly (eg through subsidiaries), 20 per cent 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 (eg through subsidiaries), less than 20 per cent 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.

- 10 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 other distributions;
  - (c) material transactions between the investor and the investee;
  - (d) interchange of managerial personnel; or
  - (e) provision of essential technical information.
11. If an entity owns financial instruments in another entity that are convertible into voting shares so as to either increase the entity's voting power or reduce another party's voting power there will exist 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.
- 12 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 contractual arrangements whether considered individually or in combination) that affect potential rights, except the intention of management and the financial ability to exercise or convert.
- 13 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.

## Equity method

- 14 Under the equity method, the investment in an associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the profit or loss of the investee is recognised in the investor's profit or loss. 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 recognised in the investee's profit or loss. 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 recognised directly in equity of the investor.
- 15 When potential voting rights exist, the investor's share of profit or loss of the investee and of changes in the investee's equity 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

- 16 An investment in an associate shall be accounted for using the equity method except when:
  - (a) the investment is classified as held for sale in accordance with NASCO 23.
  - (b) the exception in paragraph 11 of NASCO 19 that allows a parent that also has an investment in an associate not to present consolidated financial statements, applies; or
  - (c) all of the following apply:
    - (i) the investor is a wholly-owned subsidiary, or is a partially-owned subsidiary 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 ultimate or any intermediate parent of the investor produces consolidated financial statements available for public use that comply with National Accounting Standards or International Financial Reporting Standards.
- 17 Investments described in paragraph 16(a) shall be accounted for in accordance with NASCO 23.

- 18 When an investment in an associate previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for using the equity method 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.
- 19 An investor shall discontinue the use of the equity method from the date that it ceases to have significant influence over an associate.
- 20 The carrying amount of the investment at the date that it ceases to be an associate shall be regarded as its cost on initial measurement as a financial asset.
- 21 A group's share in an associate is the aggregate of the holdings in that associate by the parent and its subsidiaries. The holdings of the group's other associates or joint ventures are ignored for this purpose. When an associate has subsidiaries, associates, or joint ventures, the profits or losses 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 profits or losses and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies
- 22 Profits and losses resulting from transactions between an investor (including its consolidated subsidiaries) and an associate are recognised in the investor's financial statements only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated.
- 23 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 between the cost of the investment and the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for in accordance with NASCO 18 *Business Combinations*. Therefore:
- (a) goodwill relating to an associate is included in the carrying amount of the investment. However, amortisation of that goodwill is not permitted and is therefore not included in the determination of the investor's share of the associate's profits or losses.
  - (b) any excess of the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the investor's share of the associate's profit or loss in the period in which the investment is acquired.
- Appropriate adjustments to the investor's share of the associate's profits or losses after acquisition are also made to account, for example, for depreciation of the depreciable assets based on their fair values at the acquisition date. Similarly, appropriate adjustments to the investor's share of the associate's profits or losses after acquisition are made for impairment losses recognised by the associate, such as for goodwill or property, plant and equipment.
- 24 The most recent available financial statements of the associate are used by the investor in applying the equity method. When the reporting dates of the investor and the associate are different, 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.
- 25 When the financial statements of an associate used in applying the equity method are prepared as of a different reporting 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. The difference between the reporting date of the associate and that of the investor shall be no more than three months. The length of the reporting periods and any difference in the reporting dates shall be the same from period to period.
- 26 The investor's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances.
- 27 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.
- 28 If an associate has outstanding cumulative preference shares that are held by parties other than the investor and classified as equity, the investor computes its share of profits or losses after adjusting for the dividends on such shares, whether or not the dividends have been declared.

- 29 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. 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 (ie priority in liquidation).
- 30 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 profits, the investor resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

## **Impairment losses**

- 31 After application of the equity method, including recognising the associate's losses in accordance with paragraph 29, the investor will determine whether it is necessary to recognise any additional impairment loss with respect to the investor's net investment in the associate.
- 32 The investor will also 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.
- 33 The entire carrying amount of the investment is tested for impairment, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever there are indications that the investment may be impaired. In determining the value in use of the 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 on the ultimate disposal of the investment; or
  - (b) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.
- 34 The recoverable amount of an investment in an associate is assessed for each associate, unless the associate does not generate cash inflows from continuing use that are largely independent of those from other assets of the entity.

## **Separate financial statements**

- 35 An investment in an associate shall be accounted for in the investor's separate financial statements in accordance with NASCO 19.

## **Disclosure**

- 36 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 profit or loss;
  - (c) the reasons why the presumption that an investor does not have significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, 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 subsidiaries, 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 nature and extent of any significant restrictions on the ability of associates to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances;
  - (f) 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;

- (g) the fact that an associate is not accounted for using the equity method in accordance with paragraph 16; and
  - (i) 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 profit or loss.
- 37 Investments in associates accounted for using the equity method shall be classified as non-current assets. The investor's share of the profit or loss of such associates, and the carrying amount of those investments, shall be separately disclosed. The investor's share of any discontinued operations of such associates shall also be separately disclosed.
- 38 The investor's share of changes recognised directly in the associate's equity shall be recognised directly in equity by the investor and shall be disclosed in the statement of changes in equity as required by NASCO 2 Statement of Changes in Equity
- 39 In accordance with NASCO 10 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.

## **Effective date**

40. This National Standard for Commercial Organisations becomes operative after the date determined by the Minister of Finance of the Azerbaijan Republic

## **Appendix 1 - Comparison with IAS 28 Accounting for Associates**

This National Accounting Standard for Commercial Organisations (NASCO) 20 – Accounting for Associates is drawn primarily from International Accounting Standard (IAS) 28 (2006) – Accounting for Associates. The main differences between NASCO 20 and IAS 28 are as follows

- There are no significant differences between NASCO 20 and IAS 28
- The general provisions set out in paragraph 1 of the NASCO has been added and relates the Standard to the Accounting Law of the Republic of Azerbaijan
- Paragraphs 3 and 4 of the NASCO defines the scope of the organisations required to apply the Standard as set out in the Accounting Law of the Republic of Azerbaijan
- IAS 28 contains a number of illustrative examples and explanations. In line with established policy they have been removed from NASCO 20 and will be covered in the Explanations document
- Some paragraphs in IAS 28 have had the English simplified