PHILIPPINE INTERPRETATIONS COMMITTEE (PIC)
QUESTIONS AND ANSWERS (Q&As)

Q&A No. 2017-03

PAS 28 - Elimination of profits and losses resulting from transactions between associates and/or joint ventures

Issue

Does the investor eliminate transactions between associates and/or joint ventures when the investor accounts for these associates and/or joint ventures using the equity method?

Fact Pattern

Entity H has the following interests in associates A and B:

Interest in A – 25%

Interest in B – 30%

During the reporting period, Entity A sold inventory to Entity B, all of which remains on Entity B's statement of financial position at the end of the reporting period.

Cost of inventory for A – ₱1,000,000

Proceeds from sale by A – ₱1,200,000

Consensus

The unrealized profit arising from the transaction between associates and/ or joint ventures is eliminated to the extent of the investor's interests in the associates and/or joint venture.

In the fact pattern above, Entity H eliminates ₱15,000 (i.e., 25% × 30% × ₱200,000) as its share of the profits that is unrealized.

Basis for Consensus

Paragraph 28 of PAS 28, *Investment in Associates and Joint Ventures*, states:

“Gains and losses resulting from ‘upstream’ and ‘downstream’ transactions between an entity (including its consolidated subsidiaries) and its associate or joint venture are recognized in the entity’s financial statements only to the extent of the unrelated investor’s interests in the associate or joint venture.”

Paragraph 26 of PAS 28 states:

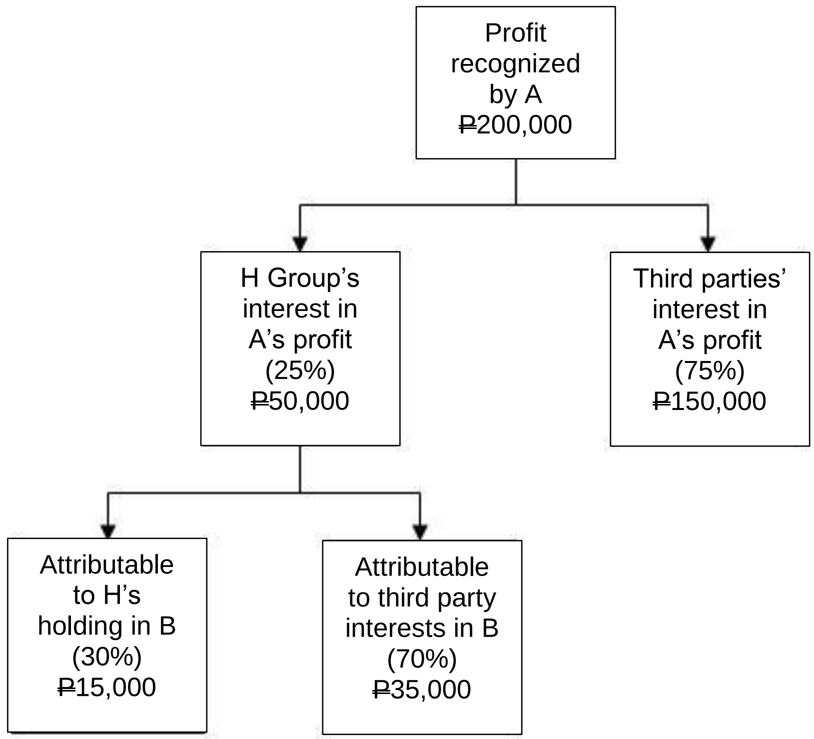
“Many of the procedures appropriate for the application of the equity method are similar to the consolidation procedures described in PFRS 10.”

Paragraph B86(c) of PFRS 10, *Consolidated Financial Statements*, states:

“eliminate in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group (profits or losses resulting from intragroup transactions that are recognized in assets, such as inventory and fixed assets, are eliminated in full).”

The fact that paragraph 28 of PAS 28 only refers to the upstream and downstream transactions is considered to be an illustration of the requirements of paragraph 26 of PAS 28 of the typical transactions to be eliminated and are not the only situations to be eliminated by this principle. Therefore, applying the same principles in paragraph 28 of PAS 28 and paragraph B86(c) of PFRS 10, the unrealized profit in the investor’s financial statements arising from any transaction between the associates and/or joint ventures is eliminated to the extent of the related investor’s interests in the associates and/or joint ventures, as appropriate.

An illustration of the elimination of profit follows:



Effective Date

The consensus in this Q&A is effective from the date of approval by the FRSC.

Date approved by PIC: <u>June 28, 2017</u>

(Original signed)

PIC Members

Wilson P. Tan, Chairman

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Date approved by FRSC: December 13, 2017