

28. Accounting for associates

Introduction

- 28.1. Charities with an interest in an associate entity must comply with the requirements of this module. If a charity has a long-term participating interest in another entity and exercises significant influence over its operating and financial policies, then that entity is likely to be an associate. Charities should refer to section 14 of FRS 102.
- 28.2. This module sets out:
- how to identify an associate;
 - accounting for an interest in an associate;
 - presentation of associates in the accounts; and
 - disclosures of interests in associates.

How to identify an associate

- 28.3. An associate is an entity over which the investing charity has significant influence, but it is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the associate but is not control or joint control over those policies.
- 28.4. A charity is presumed to have an interest in an associate if, as the investing charity, it holds directly or indirectly 20 per cent or more of the voting power of the associate – unless it can be clearly demonstrated that significant influence does not exist.
- 28.5. Where the charity has an interest in an entity but holds, directly or indirectly, less than 20 per cent of the voting power of that entity, it is presumed that no significant influence exists, unless such influence can be clearly demonstrated.
- 28.6. An investing charity exercises significant influence over an associate if it actively influences the associate's policy decisions so as to benefit. For example, when the associate is a commercial investment, the investing charity might exercise influence over the associate's dividend and reinvestment policies. When the associate is another charity or a programme related investment, the investing charity might exercise influence over the associate to ensure that its activities or objectives contribute to its own.
- 28.7. Charities may nominate a trustee or trustees or make them available to other charities in order to provide those charities with expertise or to give them access to particular skills. Some funders and grant-making charities combine financial assistance with the provision of advice, or they may be invited by the recipient of the funding to provide or nominate a trustee or trustees with particular skills. Where the recipient charity operates with a small trustee body, this might qualify as creating an associate.
- 28.8. An associate is created if the nomination or appointment power is used in conjunction with a formal or informal agreement to exercise significant influence through direct involvement in setting the funding recipient charity's financial and operating policies. However, the power to make a trustee appointment that is simply used to provide advice or expertise to the recipient charity, while allowing the recipient charity to adopt its own policies and strategies, does not create an associate relationship.

Accounting for an interest in an associate

- 28.9. The accounting treatment of an associate depends on whether or not the investing charity prepares consolidated accounts. If a charity does not prepare consolidated accounts then in its individual accounts it must include the interest in its associate at its cost less impairment (the cost model) or, if the fair value of the charity's interest can be measured reliably, it may opt to measure its interest at fair value with any gain or loss taken through income and expenditure.
- 28.10. However, when consolidated accounts are prepared, the charity must use the equity method of accounting to measure its interest in the associate.
- 28.11. The equity method of accounting requires the associate to be initially recognised at its cost (the transaction price paid), including any cost incurred making the investment (transaction costs). The initial cost equates to the fair value of net assets acquired, plus any goodwill. For more information on the equity method, refer to section 14 of FRS 102.
- 28.12. If the interest in the associate is achieved through the power to appoint trustees to a charity, the interest should be initially recognised at the fair value of the investing charity's share of the associate's net assets on appointment of the trustees. If no consideration is involved, the interest in the associate established through trusteeship is accounted for as though it were a gift, and recognised as a gain under the 'Income from donations and legacies' heading in the statement of financial activities (SoFA).
- 28.13. The investing charity's share of the associate's net assets is determined by its ownership interest in the associate. If the associate is a charity, then reference should be made to any formal agreement to identify a basis for measuring the interest or share in the associate. The rebuttable presumption, in the absence of any information to the contrary, is that the interest in the associate is measured by reference to the proportion of the voting rights held by the parent based on voting rights attaching to that interest as set out in the associate charity's governing document.
- 28.14. Using the equity method, the carrying amount of an investment in an associate is subsequently adjusted through the SoFA to reflect the investing charity's share of the associate's results. The carrying amount thereby reflects the investor's share of the post-acquisition change in the net assets of the associate.

Presentation of associates in the accounts

- 28.15. An investment in an associate must be classified as a fixed asset investment and separately identified either on the investing charity's balance sheet or in its notes to the accounts analysing the classes of fixed asset investments it holds.
- 28.16. If the associate is a charity, the investment should be presented within restricted funds, as the purposes of the associate are likely to be distinct from those of the investing charity. The investment should be shown as a programme related investment.
- 28.17. When consolidated accounts are prepared, the investing charity's share of the associate's results should be presented as a separate line in the consolidated SoFA, under either 'Income', if a gain, or 'Expenditure', if a loss.

Disclosures of interests in associates

28.18. All charities with an investment in an associate must disclose:

- the accounting policy adopted for investments in associates;
- the carrying amount of investments in associates;
- where the charity is not a parent, the effect of including those investments as if they had been accounted for using the equity method;
- this SORP also requires for each material associate that is a charity, an analysis of the investing charity's share of the income and expenditure of the associate, analysed across the main areas of the associate's activities; and
- this SORP requires the disclosure of the name of the associate(s).

28.19. If preparing entity accounts using the cost model, the trustees must also disclose the amount of dividends and other distributions recognised as income.

28.20. Charities reporting under FRS 102 must also disclose the following:

- For investments in associates accounted for by the equity method, an investor must disclose separately its share of the profit and loss (incoming resources/ resources expended) of such associates and its share of any discontinued operations of such associates, and the fair value of investments in associates for which there are published price quotations.
- For investments in associates accounted for by the fair value method, an investor must make the following disclosures:
 - the basis for determining fair value, for example the quoted market price in an active market or a valuation technique;
 - when a valuation technique is used, the assumptions applied in determining fair value for each associate; and
 - if a reliable measure of fair value is no longer available for an associate, the charity must disclose that fact.