

PARTICIPATIONS IN ASSOCIATED ENTERPRISES. THE ACQUISITION COST METHOD

PARTICIPAȚII ÎN ÎNTREPRINDERI ASOCIATE. METODA COSTULUI DE ACHIZIȚIE

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Abstract. *According to IAS 28 “Investment in Associates”, the associated enterprise is represented by an entity in which the investor has an important influence and this entity is neither subsidiary nor joint venture of his. The investments that assure an important influence could be treated by the equivalence method, at the acquisition cost or at the fair value. The first two methods are essentially different by the way of the associated enterprise benefits are recorded on. In accordance with the acquisition cost method the investor records its participation at cost as long as no depreciation exists. Only the benefits that are distributed by the associated enterprise are accounted by the investor. He recognizes the incomes only if he gets allocations from the cumulated net profits of the society in which he invested, benefits that appear ulterior of the acquisition date. The allocations that he gets in addition of these profits are considered a recovery of the investment and are registered that a diminution of the acquisition cost of it.*

Rezumat. *Potrivit IAS 28 „Participații în întreprinderile asociate”, întreprinde-rea asociată este acea unitate în care investitorul are o influență semnificativă și care nu este nici filială a acestuia, nici asociere în participație. Participațiile care asigură exercitarea unei influențe semnificative pot fi tratate prin metoda punerii în echivalență, la costul de achiziție sau la valoarea justă. Primele două metode diferă în mod esențial prin maniera în care sunt înregistrate beneficiile întreprinderii asociate. Potrivit acestei metode, un investitor înregistrează participația sa la cost atât timp cât nu are loc o depreciere. Numai beneficiile distribuite de întreprinderea asociată sunt contabilizate de acționar. El recunoaște veniturile doar în măsura în care primește repartizări din profiturile nete cumulate ale întreprinderii în care a investit, beneficii ce iau naștere ulterior datei de achiziție. Repartizările primite în plus față de aceste profituri sunt considerate o recuperare a investiției și sunt înregistrate ca o reducere a costului acesteia.*

IAS 28 „Participations in associated enterprises” applies to the enterprises over the consolidating society exercise a significant influence. The societies consolidation according to that standard is made through the **putting in equivalence** method.

MATERIAL AND METHOD

According to IAS 28 „Participations in associated enterprises”, the associated enterprise is the one in which the investor has a significant influence and which is not his subsidiary, and association in participation either. The authority to participate to the decisions looking the financial and operational politic of the associated enterprise, but the missing of the right to control these politics is known under the name of significant influence.

The holding, directly or not directly, through the subsidiaries, of participation which represent 20% or more from the vote rights of an enterprise suppose the exercising of a significant influence over it, excepting the case when can be clearly demonstrated that the situation is different. If the investor holds, directly or indirectly, through the subsidiaries, less than 20% from the votes in the enterprise in which he made the investment, we can suppose that he does not exercise a significant influence, excepting the case when we can clearly demonstrate that exist that kind of influence.

Participations which assure the exercising of a significant influence can be treated through the putting in equivalence method, at the acquisition cost or to the true value. The two methods are essentially different through the manner of the associated enterprise benefits registering.

RESULTS AND DISCUSSIONS

According to that method, an investor registers his participation at cost during a period of time in which not exist a depreciation. *Only the benefits distributed by the associated enterprise are accounted by the share-holder.* He recognise the incomes only in the limit of the received repartitions from the cumulated clear profits of the enterprise in which he made the investment, *benefits which appears after the acquisition date.* The repartitions over these profits are considered an investment recovering and are registered as a diminution of its cost.

The mentioned aspects are presented in the following example: the „A” society bought at 15.02. „N” stocks at a „B” enterprise pay with the sum of 35.600 lei. N May, the first unity receive dividends of 5.600 lei. Because the dividends are drawn from the „N-1” exercise’s result, meaning from the benefit which appears before the titles acquisition date, the distribution of a profit part under that form not represent a financial income for the „A” unity, but a diminution of the participation cost. The value of the last one goes from 35.600 lei to 30.000 lei (35.600 lei – 5.600 lei = 30.000 lei). That operation supposes, for the „A” entity, the following account article:

Accounts at banks	=	Participations	5.600	5.600
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After the exercise in which the titles was bought is not always easy to determine the dividends origin. It seems normal to consider that a dividend was drawn from the results previous the participation acquisition date, for the situation when the cumulated distributions are bigger than the established benefits at that date. For the contrary case, we can say that the obtained dividends refers to the results registered after the stocks acquisition date.

We suppose that the stocks of the „A” enterprise to the „B” society represents 30% from the last society capital. These titles was bought at 01.05.„N”, and the obtained results and the dividends distributed by „B” are the one from the table 1.

Table 1

**Results obtained and dividends distributed
by the „B” society in „N” and „N+1” years**

Nr. crt.	Specification	Exercise	
		„N”	„N+1”
1	Profit	16.200	19.000
2	Distributed dividends	8.000	10.600

Because the participation acquisition at the „B” entity was made on 01.05.„N”, and the profit of this exercise is of 16.200 lei, we can consider that the benefit realised after the mentioned date is of 10.800 lei ($16.200 \text{ lei} \times 8 \text{ months} / 12 \text{ months} = 10.800 \text{ lei}$). Because that value is superior to the distributed dividends in „N+1” year (10.600 lei), it can be considered as draws from the benefits after the date of the stocks buying and, as consequence, must be registered in bookkeeping as incomes in the hold proportion measure (30%):

Accounts at banks = Incomes from dividends 3.180 3.180

For the case when the „N” exercise profit was, for example, of 12.000 lei, the benefit registered after the titles acquisition date (01.05.„N”) will represent 8.000 lei ($12.000 \text{ lei} \times 8 \text{ months} / 12 \text{ months} = 8.000 \text{ lei}$). As conclusion, we can say that the size of the dividends distributed in the „N+1” year (10.600 lei) is superior to the profit obtained in the „N” exercise from the date of the stocks buying (8.000 lei). That lead to the fact that a part of the benefits looks also the previous years („N-1” etc.). In that situation result a total difference between the two values, of 2.600 lei ($10.600 \text{ lei} - 8.000 \text{ lei} = 2.600 \text{ lei}$) which must be considered as a drawing from the profits previously the date of the participation obtaining. The distributions for the „N+1” exercise are registered in bookkeeping in the following manner:

Accounts at banks = % Participations 3.180 780
Incomes from dividends 2.400

We will extend the taken example to the „N+2” year and we will consider that the obtained results and the distributed dividends by the „B” enterprise are the one contained by the table 2.

Table 2

**Obtained results and distributed dividends by the „B” society
in „N”, „N+1” and „N+2” years**

Nr. crt.	Specification	Exercise		
		„N”	„N+1”	„N+2”
1	Profit	16.200	19.000	–
2	Distributed dividends	8.000	10.600	20.000

The modality of calculus and registering in bookkeeping of the aspects which correspond to the „N+1” exercise, previously presented, is the following one:

Accounts at banks = Incomes from dividends 3.180 3.180

To see why is happening in the „N+2”, year must be compared the cumulated values of the obtained benefits and distributed dividends for the 01.05.„N” - 31.12.„N+1” period of time:

♦ cumulated profit = $10.800 \text{ lei} + 19.000 \text{ lei} = 29.800 \text{ lei}$;

♦ cumulated distributed dividends = $10.600 \text{ lei} + 20.000 \text{ lei} = 30.600 \text{ lei}$;

Differences = $30.600 \text{ lei} - 29.800 \text{ lei} = 800 \text{ lei}$.

Because the distributed dividends (30.600 lei) are bigger than the profits obtained from the participation acquisition date (29.800 lei), the sum of 800 lei must be considered as a drawing from the profits previous to the participation obtaining date. The distributions in the „N+2” exercise was registered in bookkeeping in the following way:

Accounts at banks	=	% Participations	6.000	240
		Incomes from dividends		5.760

If we cumulate the sums registered in the accounts in the „N+1” and „N+2” exercises we obtain for these the following values:

- ♦ accounts at banks = 3.180 lei + 6.000 lei = 9.180 lei;
- ♦ participations = – 240 lei;
- ♦ incomes from dividends = 3.180 lei + 5.760 lei = 8.940 lei.

A simple manner to follow the events in the „N+2” exercise, and which lead to the obtaining of the same results, regards the following calculus:

♦ the holding more than one of the profit for the 01.05., „N” - 31.12., „N+1” period of time: 10.800 lei + 19.000 lei = 29.800 lei, which means that the incomes for the „A” society will be of 8.940 lei (29.800 lei x 30% = 8.940 lei);

♦ the holding more than one of the distributed dividends for the „N+1” and „N+2” years: 10.600 lei + 20.000 lei = 30.600 lei, from which 9.180 lei (30.600 lei x 30% = 9.180 lei) belongs to the „A” enterprise.

From the effectuated calculus we can observed that, the cumulated value of the distributed dividends by the „A” unity (9.180 lei) is bigger than the part quota of the profits obtained by the „B” entity for the reporting period of time (8.940 lei), which means that a part of the benefits looks, also, the previous years (9.180 lei – 8.940 lei = 240 lei). That value will represent a partial recovering of the made investment. That lead, in consequence, to the participation cost diminution, according to the following register in bookkeeping:

Accounts at banks	=	% Participations	9.180	240
		Incomes from dividends		8.940

CONCLUSIONS

According to the acquisition cost method, the investor register his participation at cost till do not exist a depreciation and only the distributed benefits by the associated enterprise are register in bookkeeping by the share-holder. The last one will recognise the incomes only if he receive repartitions from the cumulated clear profits of the enterprise's in which he invest, benefits which appears after the acquisition date. The repartitions received in plus over these profits reduce the participation's cost.

It considers that a dividend was drawn from the previous results of the participation's acquisition date for the situation when the cumulated distributions are bigger than the established benefits at that date. Contrary, the dividends obtained refers at the results registered after the titles buying date.

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