28. Accounting for associates

Introduction

28.1. The reporting tiers applied for module 28 are as specified in the table below.

Table 28.1A: Tiered reporting requirements for module 28

All tiers	The requirements for accounting for associates in this module apply fully to all charities with an interest in an associate.

28.2. If a charity has a long-term participating interest in another entity and exercises significant influence over its operating and financial policies, then it must account for its interest in the entity as an associate. Charities should refer to Section 14 Investments in Associates of FRS 102.

28.3. This module sets out:

- How to identify an associate
- Accounting for an interest in an associate
- Presentation of associates in the accounts
- Disclosures of interests in associates

How to identify an associate

28.4. 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.

28.5. A charity is presumed to have significant influence 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 (see also paragraph 14.3 of FRS 102).

28.6. 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.

28.7. The existence of significant influence by an investing charity is usually evidenced in one or more of the following ways:

- representation on the board of trustees (see 28.9 and 28.10, below)
- participation in policy-making processes, including participation in decisions about dividends or other distributions, if applicable
- material transactions between investing charity and its associate
- interchange of managerial personnel

- provision of essential technical information

(see paragraph 14.3A of FRS 102)

28.8. 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 social investment, the investing charity might exercise influence over the associate to ensure that its activities or objectives contribute to its own.

28.9. Charities may nominate a trustee or trustees or make them available to another charity in order to provide that charity with expertise or to give it 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 provided that the charity is able to exert significant influence over the operating and financial policies of the other charities.

28.10. 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

28.11. A charity that does not prepare consolidated accounts must in its individual financial statements account for its investments in associates using either:

- the cost model to measure investments at cost less accumulated impairment losses
- at fair value in accordance with paragraphs 14.9 to 14.10A of FRS 102
- at fair value with any gain or loss taken through the statement of financial activities (SoFA). FRS 102 Section 2A Fair Value Measurement provides guidance on determining fair value (see paragraph 14.4 of FRS 102 for more information)

28.12. When consolidated accounts are prepared, the charity must use the equity method of accounting to measure its interest in the associate.

28.13. 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. 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 profit and loss, other comprehensive income and equity. For full details on the equity method, refer to Section 14.8 of FRS 102.

28.14. If significant interest is achieved through the power to appoint trustees to a charity, the interest in the associate 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. Where an interest in an associate is acquired and no consideration is involved, the interest in the associate established through trusteeship is accounted for as though it were a donation, and recognised as a gain under the 'Income from donations and legacies' heading in the statement of financial activities (SoFA).

28.15. 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.

Presentation of associates in the accounts

28.16. In non-consolidated (individual or separate) accounts, an investment in an associate must be classified as a fixed asset investment in the accounts of the investing charity. This must be separately identified either in the investing charity's balance sheet or in its notes to the accounts analysing the classes of fixed asset investments it holds.

28.17. If the associate is a charity, this SORP requires that 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 social investment, see Module 21, '*Accounting for social investments*'.

28.18. When consolidated accounts are prepared, the investing charity's share of the associate's results should be presented on the 'net gains/(losses) on investments in 'Joint controlled entities (JCEs) and Associates' line in the consolidated SoFA.

Disclosures of interests in associates

28.19. All charities with an investment in an associate must disclose (paragraphs 14.12 and 14.15A, FRS 102):

- the accounting policy adopted for investments in associates
- the carrying amount of investments in associates
- the fair value of each investment in an associate, if a market price for the investment is quoted and the charity accounts for the associate using the equity method

- in the individual accounts of an investor that is not a parent, summarised financial information about the investments in the associates, along with 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;
- the disclosure of the name of the associate(s).

28.20. Charities must also disclose the following:

- for investments in associates accounted for using the cost model, the trustees must also disclose the amount of dividends and other distributions recognised as income
- for investments in associates accounted for by the equity method, an investor must disclose separately its share of the profit and loss (income/expenditure) of such associates on the 'net gains/(losses) on investments in JCEs and Associates' line in the SoFA and its share of any discontinued operations of such associates
- for investments in associates accounted for by the fair value method as defined by FRS 102 paragraph 14.4(c), 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
    - if a reliable measure of fair value is no longer available for an associate, the charity must disclose that fact and the carrying amount of those financial instruments