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FINANCIAL INSTRUMENTS

PAS 32, paragraph 11, defines a financial instrument as any contract that gives rise to a financial asset of one entity and a financial liability or an equity instrument of another entity.

Definition of financial asset

A financial asset is any asset that is:

- a. Cash
- b. A contractual right to receive cash or another financial asset from another entity.
- c. A contractual right to exchange financial instrument with another entity under conditions that are potentially favorable.
- d. An equity instrument of another entity.

Definition of financial liability

A financial liability is any liability that is a contractual obligation:

- a. To deliver cash or other financial asset to another entity.
- b. To exchange financial instruments with another entity under conditions that are potentially unfavorable.

Definition of equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments include:

- a. Ordinary share capital
- b. Preference share capital
- c. Warrants and written call options that allow the holder to subscribe for or purchase a fixed number of ordinary shares of the issuing entity in exchange for a fixed amount of cash or another financial asset.

Classification of financial assets

Under PFRS 9, paragraph 4.1.1, financial assets are classified into two only, namely:

1. Financial assets at fair value
2. Financial assets at amortized cost

Financial assets at fair value include both equity securities and debt securities.

Financial assets at amortized cost include only debt securities.

Financial assets at fair value

The following financial assets shall be measured at fair value through profit or loss:

1. Financial assets held for trading or popularly known as “trading securities”.
2. Financial assets that are irrevocably designated on initial recognition as at fair value through profit or loss.

For example, *investment in bonds* and other debt instruments can be designated as at fair value through profit or loss even if the financial assets satisfy the amortized cost measurement. This designation is in accordance with paragraph 4.1.5 of PFRS 9.

3. All other investments in **quoted** equity instruments.

These financial assets are measured at fair value through profit or loss “by consequence” in accordance with Application Guidance B5.4.14 of PFRS 9.

1. Fatal Company purchased marketable equity securities during 2013 to be held as “trading”. An analysis of the current investments of December 31, 2013 showed the following:

	Cost	Market
A Company ordinary shares	1,000,000	800,000
B Company ordinary shares	1,500,000	1,800,000
C Company preference shares	2,000,000	1,700,000
D Company preference shares	2,500,000	2,600,000

What is the measurement of the financial assets held for trading on December 31, 2013?

- | | |
|--------------|--------------|
| a. 6,900,000 | c. 7,000,000 |
| b. 6,800,000 | d. 6,500,000 |

Note:

→ Financial assets held for trading or trading securities are measured at fair value through profit or loss by requirement, meaning required by the standard.

2. On January 1, 2013, Gala Company purchased marketable equity securities to be held as “trading” for P5,000,000. The entity also paid commission, taxes and other transactions costs amounting to P200,000. The securities had a market value of P5,500,000 on December 31, 2013 on December 31, 2013. No securities were sold during 2013. The transactions costs that would be incurred on the disposal of the investment are estimated at P100,000. What amount of unrealized gain or loss should be reported in the 2013 income statement?
 - a. 500,000 unrealized gain
 - b. 500,000 unrealized loss
 - c. 400,000 unrealized gain
 - d. 400,000 unrealized loss

Notes:

→ Initial measurement of financial assets

Under PFRS 9, paragraph B5.1.1, at initial recognition, an entity shall measure a financial asset at fair value plus, in the case of **financial asset not at fair value through profit or loss**, transaction costs that are directly attributable to the acquisition of the financial asset.

→ Subsequent measurement

PFRS 9, paragraph 5.2.1 provides that after initial recognition, an entity shall measure a financial asset either at fair value or amortized cost.

PFRS 9, paragraph 4.1.4, provides that by residual definition or by default, financial assets that do not meet the conditions for amortized cost measurement shall be measured at fair value.

Unrealized gain or loss is computed as the difference between the carrying amount of the investment and its fair value. In determining the fair value, no deduction is made for transaction costs that may be incurred on disposal of the financial asset.

3. During 2013, Haggard Company purchased marketable equity securities for P1,850,000 to be held as trading investments. In 2013, the entity appropriately reported an unrealized loss of P200,000 in the income statement. There was no change during 2013 in the compositions of the portfolio or trading securities. Pertinent data on December 31, 2014 are as follows:

Securities	Cost	Market value
A	600,000	700,000
B	450,000	400,000

C 800,000 900,000

What amount of unrealized gain on these securities should be included in the 2013 income statement?

- a. 350,000
- b. 150,000
- c. 550,000
- d. 0

Note:

→ Under PFRS 9, paragraph 5.7.1, gains and losses on financial assets measured at fair value shall be presented in profit or loss, unless:

- a. The financial asset is part of a hedging relationship.
 - b. The financial asset is an investment in equity instrument and the entity has **irrevocably elected** to present unrealized gains and losses in other comprehensive income.
4. Illusion Company acquired equity instrument for P4,000,000 on March 31, 2013 to be measured at fair value through other comprehensive income. The direct acquisition costs incurred amounted to P700,000.

On December 31, 2013, the fair value of the instrument was P5,500,000 and the transaction costs that would be incurred on the sale of the investment were estimated at P600,000.

What amount of unrealized gain should be recognized in other comprehensive income for the year ended December 31, 2013?

- a. 200,000
- b. 900,000
- c. 800,000
- d. 0

Notes:

→ Under PFRS 9, paragraph B5.1.1, at initial recognition, an entity shall measure a financial asset at fair value plus, in the case of **financial asset not at fair value through profit or loss**, transaction costs that are directly attributable to the acquisition of the financial asset.

Meaning, transaction costs are added to the fair value of the financial asset, except in the case of financial assets measured at fair value through profit or loss.

5. Judicious Company acquired an equity investment a number of years ago for P3,000,000 and classified it as at fair value through other comprehensive income. On December 31, 2013, the cumulative loss recognized in other comprehensive income was P400,000 and the carrying amount of the investment was P2,600,000.

On December 31, 2014, the issuer of the equity instrument was in severe financial difficulty and the fair value of the equity investment had fallen to P1,200,000.

What cumulative amount of unrealized loss should be reported as component of other comprehensive income in the statement of changes in equity for the year ended December 31, 2014?

- a. 1,400,000
- b. 1,800,000
- c. 1,000,000
- d. 0

Notes:

→ For financial assets measured at fair value, it is not necessary to assess for any impairment. Under PFRS 9, there is *no more impairment loss* on financial asset measured at fair value, whether through profit or loss, or through other comprehensive income.

Accordingly, if the decline in value of financial asset measured at fair value through *other comprehensive income* is judged to be **nontemporary**, the unrealized loss will

- a. Capitalized as cost of the financial asset
 - b. Expensed when incurred
 - c. Charged to retained earnings
 - d. Included as a component of other comprehensive income
10. Which of the following statements is true concerning recognition of unrealized gains and losses on financial assets?
- I. Unrealized gains and losses on financial assets held for trading shall be included in profit or loss.
 - II. Unrealized gains and losses on financial assets measured at amortized cost shall be included as component of other comprehensive income.
- a. I only
 - b. II only
 - c. Both I and II
 - d. Neither I nor II
11. When an entity reclassifies financial asset at amortized cost to financial asset at fair value, the fair value is determined at the reclassification date, and the difference between the previous carrying amount and the fair value
- a. Is included in profit or loss
 - b. Is included in other comprehensive income
 - c. Is included in retained earnings
 - d. Is not recognized

Notes:

→ PFRS 9, paragraph 4.1.1, provides that an entity shall reclassify financial assets only when it changes its business model for managing the financial assets.

Where reclassification occurs, paragraph 5.6.1 provides that an entity shall apply the reclassification *prospectively* from the reclassification date.

→ **From fair value to amortized cost.** PFRS 9, paragraph 5.6.3, provides that when an entity reclassifies a financial asset at fair value to financial asset at amortized cost, the fair value at the reclassification date becomes the new carrying amount of the financial asset at amortized cost.

The difference between the new carrying amount of the financial asset at amortized cost and the face value of the financial asset shall be amortized through profit or loss over the remaining life of the financial asset using the effective interest method.

→ **From amortized cost to fair value.** PFRS 9, paragraph 5.6.2, provides that when an entity reclassifies a financial asset at amortized cost to financial asset at fair value, the fair value is determined at reclassification date. The difference between the previous carrying amount and the fair value is recognized in profit or loss.

12. If there is objective evidence that an impairment loss on financial asset measured at amortized cost has been incurred, the amount of loss is measured as
- a. The difference between the carrying amount and the present value of estimated cash flows discounted at the original effective interest rate.
 - b. The difference between the carrying amount and the present value of estimated cash flows discounted at the current market rate of interest.
 - c. The difference between the carrying amount and the absolute amount of estimated cash flows.
 - d. The difference between the absolute amount of estimated cash flows and present value of estimated cash flows and present value of estimated cash flows discounted at the original effective interest rate.

INVESTMENT IN EQUITY SECURITIES

The Application Guidance of PFRS 9 provides that when a financial asset is recognized initially, an entity shall measure it at **fair value plus transaction costs** that are directly attributable to the acquisition.

The fair value is usually the transaction price, meaning the fair value of the consideration given.

13. On July 1, 2013, Impervious Company exchanged a land for 25,000 ordinary shares of Ace Company. On this date, the land's carrying amount was P2,500,000 and its fair value was P3,000,000.

On July 1, 2013, the carrying amount of Ace Company's share was P60 and its market value was P150. On December 31, 2013, Ace Company had 250,000 ordinary shares and the carrying amount per share was P80.

What amount should be reported in the December 31, 2013 statement of financial position as an investment in Ace Company?

- | | |
|--------------|--------------|
| a. 1,500,000 | c. 3,750,000 |
| b. 2,500,000 | d. 3,000,000 |

Notes:

- If the equity securities are acquired in an exchange, the acquisition cost is determined by reference to the fair value of the asset given. It may be appropriate to consider the **fair value of securities received** if it is more clearly evident. In the absence of fair value, the cost or carrying amount of the asset given is the basis for recording.

14. Kinfolk Company purchased 20,000 ordinary shares on March 1, 2013, for P720,000 to be held for trading. The entity received a P100,000 cash dividend on July 1, 2013. The investee declared a 10% stock dividend on December 1, 2013 to shareholders of record on December 31, 2013. The dividend was distributed on January 31, 2014. The market price of the share was P38 on December 1, 2013. P40 on December 31, 2013 and P42 on January 31, 2014. What amount should be recorded as dividend revenue for 2013?

- | | |
|------------|------------|
| a. 180,000 | c. 100,000 |
| b. 176,000 | d. 184,000 |

Notes:

- On the part of the shareholder, cash dividends are considered as income. The cash dividends do not affect the investment account.
- Stock dividend may be the same as those held or different from those held. Stock dividends whether of the same class or different are not income. The reason that there is no distribution of the assets of the entity.

15. Maxim Company acquired 40,000 ordinary shares on October 1, 2013 for P6,600,000 to be held for trading. On November 30, 2013, the investee distributed a 10% ordinary stock dividend when the market price of the shares was P250. On December 31, 2013, the entity sold 4,000 shares for P1,000,000. For the year ended December 31, 2013, what amount should be reported as gain on sale of investment?

- | | |
|------------|------------|
| a. 340,000 | c. 500,000 |
| b. 400,000 | d. 600,000 |

Notes:

- Stock dividends do not affect the total cost of the investment but reduce the cost of the investment per share.

16. Information pertaining to dividends from Presumptuous Company's nontrading investments in ordinary shares during the year ended December 31, 2013 is as follows:

- The entity owned a 10% interest in Beal Company, which declared a cash dividend of P500,000 on November 30, 2013 to shareholders of record on December 31, 2013 and payable on January 15, 2014.
- On October 15, 2013, the entity received a liquidating dividend of P100,000 from Clay Mining Company. The entity owned a 5% interest in Clay Mining Company.

What amount of dividend income should be reported for 2013?

- | | |
|------------|------------|
| a. 500,000 | c. 150,000 |
| b. 600,000 | d. 50,000 |

Notes:

→ Liquidating dividends represent return of invested capital, and therefore, are not income.

17. On January 1, 2013, Scoundrel Company purchased 100,000 ordinary shares P80 per share to be classified as nontrading through other comprehensive income. On September 30, 2013, the entity received 100,000 stock rights to purchase an additional 100,000 shares at P90 per share. The stock rights had an expiration date of February 1, 2014. On September 30, 2013, each share had a market value of P114 and the stock right had a market value of P6. What amount should be reported on September 30, 2013 as investment in stock rights?

- | | |
|------------|------------|
| a. 500,000 | c. 100,000 |
| b. 400,000 | d. 600,000 |

Notes:

→ A *stock right* or *preemptive right* is a legal right granted to shareholders to subscribe for new shares issued by a corporation at a specified price during a definite period. The ownership of stock rights is evidenced by instruments or certificates called *share warrants*.

There are two schools of thought on accounting for stock rights, namely:

- a. Stock rights are accounted for separately.
- b. Stock rights are not accounted for separately.

→ Accounted for separately

Under the Application Guidance B5.4.14 of PFRS 9, all investments in equity instruments and contracts on those instruments must be measured at fair value.

Undoubtedly, stock rights are form of equity instrument and therefore shall be measured initially at **fair value**.

In other words, a portion of the carrying amount of the original investment in equity securities is allocated to the stock rights at an amount equal to the fair value of the stock rights at the time of acquisition.

→ Not accounted for separately

Stock rights are recognized as **embedded derivative** but not a “stand-alone” derivative.

PFRS 9, paragraph 4.3.3, provides that an embedded derivative shall be separated from the host contract and accounted for separately under certain conditions. Paragraph 4.3.3 further provides that if the host contract is within the scope of PFRS 9, the classification requirements of PFRS 9 are applied to the combined host contract on the **entirety**.

Haste Company used rights to purchase 10,000 additional shares of the investee and allowed the rights not exercised to lapse.

What amount was debited to investment account for the purchase of the additional new shares?

- a. 1,100,000
- b. 1,050,000
- c. 800,000
- d. 900,000

21. During 2013, Reminiscent Company bought the shares of another entity to be held for trading as follows:

June	1	20,000 shares @ P100	2,000,000
December	1	30,000 shares @ P120	<u>3,600,000</u>
			<u>5,600,000</u>

The transactions for 2014 are:

January	10	Received cash dividend at P10 per share.
January	20	Received 20% stock dividend.
December	10	Sold 30,000 shares at P125 per share.

What is the gain on sale of investment using the FIFO approach?

- a. 1,150,000
- b. 950,000
- c. 150,000
- d. 550,000

22. Dividends are recognized on the

- a. Date of issuing statements
- b. Date of record
- c. Date of declaration
- d. Date of statement of financial position

23. Liquidating dividends are credited to

- a. Investment account
- b. Retained earnings
- c. Share premium
- d. Share capital

24. What is the effect of stock dividend of the same class?

- a. Increase in the investment and increase in cost per share
- b. Decrease in investment and decrease in cost per share
- c. No effect on investment but decrease in cost per share
- d. No effect on investment but increase in cost per share

25. When stock dividend of different class are received

- a. No formal entry is made but only a memorandum
- b. Cash is debited dividend income is credited
- c. A new investment account is debited and dividend income is credited
- d. A new investment account is debited and the original investment account is credited

26. Shares received in lieu of cash dividend are recorded as

- a. Income at carrying amount of the shares received
- b. Income at the fair value of the shares received
- c. Income at the cash dividend that would have been received
- d. Stock dividends

27. Cash received in lieu of stock dividends is accounted for as

- a. Dividend income
- b. Return of investment
- c. Partly dividend income and partly return of investment
- d. If the stock dividend are received and subsequently sold and gain or loss is recognized

INVESTMENT IN ASSOCIATE

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

Control – Under PFRS 10, an investor controls an investee when the investor is exposed of has rights to variable returns from the involvement with the investee and has the ability to affect those returns through its power over the investee.

Associate is simply defined as an equity over which the investee has significant influence.

The assessment of significant influence is a matter of judgment. However, PAS 28, paragraph 5, provides a practical guidance to assist management in making such assessment.

If the investor holds, directly or indirectly through subsidiaries **20% 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. Other factors are also provided for by PAS 28, paragraph 6.

28. On January 1, 2013, Power Company purchased 25% of the outstanding ordinary shares of an investee. During the current year, the investee reported net income of P4,200,000 and distributed dividends of P1,800,000. The carrying amount of the investment on December 31, 2013 was P3,200,000 after applying the equity method. What was the purchase price paid for the investment?
- | | |
|--------------|--------------|
| a. 1,700,000 | c. 3,800,000 |
| b. 2,600,000 | d. 4,700,000 |

Notes:

- The equity method is applicable when the investor has a significant influence over the investee. Under the equity method, the investment initially recognized at cost and the carrying amount is **increased** by the investor's share of profit of the investee and **decreased** by the investor's share of the loss of the investee.

Distributions or dividends received from an investee reduce the carrying amount of the investment.

The investment in associated accounted for using the equity method shall be classified as **noncurrent** asset.

29. On July 1, 2013 Blush Company purchased 20% of the outstanding ordinary shares of an investee for P4,000,000 when the fair value of the net assets was P20,000,000. Blush Company has the ability to exercise significant influence over the operating and financial policies of the investee. The following data concerning the investee are available:

	12 months ended December 31, 2013	6 months ended December 31, 2013
Net income	3,000,000	1,600,000
Dividend declared and paid	1,900,000	1,000,000

In the income statement of the year ended December 31, 2013, what amount of income should be reported from the investment?

- | | |
|------------|------------|
| a. 200,000 | c. 380,000 |
| b. 320,000 | d. 600,000 |
30. On April 1, 2013, August Company purchased 40% of the outstanding ordinary shares of an associate for P4,000,000. On this date, the investees net assets totaled P8,000,000 and August

Company cannot attribute the excess of cost of the investment over the equity in the investee's net assets to any particular factor. The investee reported net income of P1,000,000 for the current year. What is the maximum amount which could be included in August Company's income before tax to reflect its "equity in earnings of the investee" for the current year?

- a. 270,000
- b. 360,000
- c. 300,000
- d. 400,000

Notes:

→ **Excess of cost over the carrying amount**

If the investor pays more than the carrying amount of the net assets acquired, the difference is commonly known as "excess of cost over carrying amount" and may be attributed to the following:

- a. Undervaluation of the investee's assets, such as building, land and inventory.
- b. Goodwill

If the assets of the investee are fairly valued, accountants frequently attribute the excess of cost over the carrying amount of the underlying net assets to *goodwill*.

If the excess is attributable to undervaluation of **depreciable asset**, it is amortized over the remaining life of the depreciable asset.

If the excess is attributable to **land**, it is not amortized because the land is nondepreciable.

If the excess is attributable to **inventory**, the amount is expensed when the inventory is already sold.

If the excess is attributable to **goodwill**, it is **not amortized** but the entire investment in associate is tested for impairment at the end of the reporting period.

31. On January 1, 2013, Mighty Company acquired 20% of the outstanding ordinary shares of an investee for P7,000,000. This investment gave Mighty Company the ability to exercise significant influence over the investee. The carrying amount of the acquired net assets was P6,000,000. The excess of cost over the carrying amount was attributed to an identifiable intangible asset which was undervalued on investee's statement of financial position and which had a remaining useful life of ten years. For the year ended December 31, 2013, the investee reported net income of P1,800,000 and paid cash dividend of P600,000 on its ordinary shares. On December 31, 2013, what is the carrying amount of the investment in associate?

- a. 6,780,000
- b. 7,140,000
- c. 7,000,000
- d. 6,900,000

Note:

→ When depreciable and intangible assets of the investee are undervalued, depreciation and amortization are naturally understated resulting to overstatement of the investee's net income. Thus, the investor should decrease investment income.

32. On January 1, 2013, Courteous Company purchased 30% of the outstanding ordinary shares of an investee for P5,160,000. At the date of acquisition, the investee's net assets had a carrying amount of P11,800,000. Depreciable assets with an average remaining life of 4 years have a current fair value that is P2,600,000 in excess of carrying amount. The remaining difference cannot be attributed to any identifiable tangible or intangible asset. At the end of 2013, the investee reported net income of P3,600,000 and paid cash dividends of P400,000. What amount should be reported as investment in associate on December 31, 2013?

- | | |
|--------------|--------------|
| a. 5,925,000 | c. 4,715,000 |
| b. 6,120,000 | d. 5,883,000 |

33. On January 1, 2013, Magic Company purchased 40% of the outstanding ordinary shares of an investee paying P2,560,000 when the carrying amount of the net assets of the investee equaled P5,000,000. The difference was attributed to equipment which had the carrying amount of P1,200,000 and a fair market value of P2,000,000, and to building with a carrying amount of P1,000,000 and a fair market of P1,600,000. The remaining useful life of the equipment and building was 4 years and 12 years, respectively. During the current year, the investee reported net income of P1,600,000 and paid dividends of P1,000,000. What amount is the carrying amount of the investment in associate on December 31, 2013?

- | | |
|--------------|--------------|
| a. 2,550,000 | c. 2,800,000 |
| b. 2,700,000 | d. 3,050,000 |

34. On January 1, 2013, Lopez Company purchased 40% of the ordinary shares outstanding of an investee for P1,500,000 when the net assets of the investee amounted to P3,000,000.

At acquisition date, the carrying amounts of identifiable assets and liabilities of the investee were equal to their fair value, except for the following:

- a. Equipment whose fair value was P700,000 greater than its carrying amount.
- b. Inventory whose fair value was P250,000 greater than its carrying amount.

The equipment has a remaining life of 4 years and the inventory was all sold during the current year. The investee reported net income of P2,000,000 for the current year and paid P500,000 cash dividend at year-end.

What is the carrying amount of the investment in associate on December 31, 2013?

- | | |
|--------------|--------------|
| a. 2,100,000 | c. 1,930,000 |
| b. 1,710,000 | d. 2,190,000 |

Notes:

→ **Excess of fair value over cost**

PAS 28, paragraph 32, provides that any excess of the investor's share of the net fair value of the associate's identifiable assets and liabilities over the cost of the investment is *included as income in the determination of the investor's share of the associate's profit or loss in the period which the investment is acquired.*

35. On January 1, 2013, Happy Company purchased 10% of Rose Company's ordinary share capital for P5,000,000. Rose Company reported net income of P500,000 for 2013 and P2,000,000 for 2014, and paid dividend of P3,000,000 on December 31, 2014. What amount of should be reported as dividend income for 2014?

- | | |
|------------|------------|
| a. 300,000 | c. 250,000 |
| b. 200,000 | d. 500,000 |

Notes:

→ If the investor holds, directly or indirectly, through subsidiaries **less than 20%** 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.

In this case, the investment is accounted for as follows:

- a. **Fair value method** – applied to financial assets measured at fair value through profit or loss and financial assets measured at fair value through other comprehensive income.

associate is operating under severe long-term restrictions that significantly impair its ability to transfer funds to the investor.

39. If under the equity method, an investor's share of losses of an associate equals or exceeds the carrying amount of an investment, which of the following statements is incorrect?
- The investor discontinues its share of further losses.
 - Additional losses are provided for, or a liability is recognized, 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 profit, the investor resumes its share of those profits without regard to the share of net losses not previously recognized.
 - The investment is reported at NIL value.
40. When the investor discontinues the use of the equity method because significant influence is lost, the investment in associate retained by the investor shall be measured at
- Fair value
 - Carrying amount
 - Amortized cost
 - Original cost

Notes:

→ PAS 28, paragraph 22, provides that on the date the significant influence is lost, the investor shall measure any retained investment in associate at fair value.

The difference between the carrying amount of the investment at the date of the significant influence is lost, and the fair value of the retained investment plus any proceeds received from disposal of any part interest in the associated, shall be included in **profit or loss**.

41. How is the goodwill arising on the acquisition of an associate dealt with in the financial statements?
- It is amortized.
 - It is impairment tested individually.
 - It is written off against profit or loss.
 - Goodwill is not recognized separately within the carrying amount of the investment.
42. How is the impairment test carried out for an investment in associate?
- The goodwill is separated from the rest of the investment and impairment tested individually.
 - The entire carrying amount of the investment is tested for impairment by comparing its recoverable amount with the carrying amount.
 - The carrying value of the investment shall be compared with its market value.
 - The recoverable amounts of all investments in associate shall be assessed together to determine whether there has been an impairment on all investments.

Notes:

→ If there is an indication that an investment in associate may be impaired, PAS 28, paragraph 40, in conjunction with PAS 36, on "impairment of assets" requires that an impairment loss shall be recognized "whenever the carrying amount of the investment in associate exceeds its recoverable amount".

The recoverable amount is measured as the higher between *fair value less cost of disposal* and *value in use*.

Any resulting impairment loss for the investment is allocated first to any remaining **goodwill**.

The recoverable amount of an investment in associate is assessed for each *individual associate*, unless an individual associate does not generate cash inflows from continuing use that are largely independent of those from other assets of the reporting entity.

-END-

Valix, Conrado T., Peralta, Jose F., Valix, Christian Aris M., Financial Accounting Vol. 1 First Part 1 2013 Edition.