Intercorporate Investments

Investments in Financial Assets:

Ownership typically less than 20 %, usually passive investment and does not have significant influence on the investee.

IFRS classifies these investments as:

- Held-to-maturity
- Available-for-sale
- Held-for-trading

Investments in Associates:

Investment in between 20 to 50 percent in non-controlling but have significant influence on investee. *Equity method* is used for reporting.

Business Combinations:

Ownership more than 50 percent and is controlling investment and *acquisition* method is used.

Joint Ventures:

It is an entity with two or more investors. *Equity method* is used under US GAAP and *Proportionate consolidation* is used under IFRS.

Special Purpose and Variable Interest entities:

Certain assets and liabilities are set aside to form special purpose entity which can be a corporation, joint venture, partnership or trust. The intent is to reduce risk and lower cost of capital.

Held-to-maturity: Long term holds including debt securities and equities. Typically held until maturity and reported on balance sheet at amortized cost. Amortized cost is cost of debt at purchase plus any discount or minus any premium amortized to date.

Interest income recognized in income statement and subsequent changes to fair value is ignored.

Held-for-Trading: Securities held for trading usually in three months. These securities reported on balance sheet at fair value. Changes in fair value of these securities, both realized and unrealized reported on income statement along with dividend income.

Available-for Sale: these securities neither belong to held-for-trading nor held-to maturity. These securities are reported at fair value on the balance. *Realized* gains or losses are reported on income statement along with dividend and interest income. *Unrealized* gains/losses are excluded from income statement and included in shareholders equity.

Under US GAAP unrealized gains or losses reported under "other comprehensive income" section of the equity. When equities sold this unrealized portion is removed form equity and realized in income statement.

Under IFRS unrealized currency changes are recognized in Income statement, but in equity under US GAAP.

Investment in Associates: Equity method is used. Proportionate share of invitee's earnings recognized in income statement and investment account on balance sheet. Proportionate share of dividends are subtracted from investment account of balance sheet and not recognized in income statement.
Investor does not report investee assets and liabilities in balance sheet, simply adds proportionate share of net assets and goodwill.

Business Combinations: All assets, liabilities, income, expenses of investee combined with Parent Company excluding inter company transactions. When parent acquires less than 100 percent of investee, then minority interest (non-controlling) account is created and proportionate assets and liabilities are allocated to this account.

Joint Ventures: Under proportionate consolidation it is similar to consolidation method, except the parent company includes proportionate share of assets and liabilities and don't create minority interest.

- All three methods report same net income.
- Equity is same for all three methods, so ROE same for all three methods.
- Assets and liabilities are lower under equity method display better ratios such as lower debt to equity, higher ROA, where as Assets and liabilities are higher under consolidation method, proportionate consolidation lies in between.
- Sales are higher under consolidation method and lower under equity method and proportionate consolidation lies in between.
- Equity method has higher profit margin, lower under consolidation and proportionate consolidation lies in between.

Under IFRS, if economic interests sponsor controls Special interest entity (SPE), then sponsor must consolidate the SPE. Under US GAAP primary beneficiary of VIE must consolidate.