



FIXED ASSET INVESTMENTS UNDER FRS 102

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INTRODUCTION

This helpsheet has been issued by ICAEW's Technical Advisory Service to help ICAEW members understand key aspects of accounting for fixed asset investments under FRS 102. This helpsheet explores investments in subsidiaries, associates and joint ventures, as well as other investments in shares. It also considers loans made between parent entities and subsidiaries.

This helpsheet includes references to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (September 2024) ('new FRS 102') which is effective for accounting periods beginning on or after 1 January 2026 (except for paragraphs 7.20B and 7.20C which are effective for accounting periods beginning on or after 1 January 2025). This helpsheet also includes references to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (January 2022) ('old FRS 102') which was effective for accounting periods beginning on or after 1 January 2019, or 1 January 2017 for small entities applying Section 1A, following the Triennial review 2017.

Members may also wish to refer to the following related helpsheets and guidance:

- [Disclosure of related undertakings, parent entities and ultimate controlling parties](#)
- [TECH 02/17 BL Guidance on realised and distributable profits under the Companies Act 2006](#)

INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

In the separate financial statements of the investing entity, the accounting for investments in subsidiaries, associates and jointly controlled entities is explicitly scoped out of Sections 11 and 12 of old and new FRS 102. For entities which are parents, the requirements are set out in paragraph 9.26 of old and new FRS 102. This permits a choice of three accounting policies:

- at cost less impairment;
- at fair value with changes in fair value recognised in other comprehensive income (or profit or loss) in accordance with paragraphs 17.15E and 17.15F of old and new FRS 102; **or**
- at fair value with changes in fair value recognised in profit or loss.

The same accounting policy must be applied to all investments in a single class (e.g. subsidiaries held as part of an investment portfolio, subsidiaries not held as part of an

investment portfolio, associates or jointly controlled entities). An entity may apply different accounting policies for different classes. Therefore it is possible, for example, to account for investments in jointly controlled entities at cost less impairment, but account for investments in associates at fair value through profit or loss.

For entities which are not parents, the same accounting policy choices are available by virtue of old and new FRS 102 paragraph 9.25 which in turn refers to old and new paragraphs 14.4 (for investments in associates) and old and new 15.9 (for investments in jointly controlled entities).

Members may wish to refer to the helpsheet [Disclosure of related undertakings, parent entities and ultimate controlling parties](#) for guidance on disclosure requirements.

INVESTMENTS IN SHARES (OTHER THAN INVESTMENTS IN ANOTHER GROUP ENTITY)

Old and new FRS 102 paragraph 11.8(d) requires investments in non-derivative financial instruments that are equity of the issuer (e.g. most ordinary shares and certain preference shares) to be accounted for as basic financial instruments in accordance with Section 11 of old and new FRS 102.

Old and new FRS 102 paragraph 11.14(d) requires such investments to be measured at fair value, with changes in fair value recognised in profit or loss, if the shares are publicly traded or if the fair value can otherwise be measured reliably. Even if the investments did not meet the definition of a basic financial instrument, the treatment would be the same under old and new FRS 102 paragraph 12.8.

For companies, the question then arises as to whether the changes in value in the profit and loss account are realised gains and losses for the purposes of determining distributable profits. In accordance with [TECH 02/17 BL Guidance on realised and distributable profits under the Companies Act 2006](#) paragraph 4.3, in situations where the financial instrument is traded in an active market or the financial instrument is valued using a valuation technique whose variables include only data from observable markets, it will generally be possible to enter into a transaction to convert the change in value to cash at short notice without any period of marketing and/or negotiation. As a result, such changes in value will usually be regarded as realised where the company's circumstances would not prevent immediate conversion to cash and such conversion would not be on adverse terms. Losses arising from fair value accounting should be treated similarly by virtue of paragraph 4.29.

When it is not possible to measure their fair value reliably, these investments shall instead be measured at cost less impairment.

LOANS WITH SUBSIDIARIES

A loan made between a parent entity and its subsidiary is often a financing transaction within the scope of Sections 11 and 12 of old and new FRS 102. Where it meets the definition of a basic financial instrument, old and new FRS 102 paragraph 11.13 requires it to be recorded initially at the present value of the future payments, discounted at a market rate of interest for a similar debt instrument. It will subsequently be accounted for at amortised cost using

the effective interest rate method as required by paragraph 11.14 of old and new FRS 102. If it is a non-basic financial instrument, it will need to be measured at fair value through profit or loss (old and new FRS 102 paragraph 12.8).

Where an intercompany loan is not at a market rate of interest **and** the loan is over a fixed term, there will be an element of capital contribution to, or distribution from, the subsidiary. Further guidance on this is available in the helpsheet [How do I account for intercompany loans at non-market rates?](#).

It is important to note that the classification of a long-term loan as a fixed asset investment represents the **intention** for which the loan was made, not necessarily the contractual terms inherent in the loan. This is because company law defines fixed assets as 'assets of a company which are **intended for use on a continuing basis** in the company's activities'.

From the lender's perspective, even if the loan is contractually repayable on demand, it may be intended to meet the ongoing capital requirements of the borrower and it may not intend to demand repayment in the near future. In such situations, it effectively represents an investment in the borrower by the lender and should still be shown as a fixed asset investment.

However, if the loan is contractually repayable on demand, the borrower will classify it as being due within one year (old and new FRS 102 paragraph 4.7). This is because liabilities are presented based on when they contractually fall due, rather than looking at their intended use in the business.

IF IN DOUBT SEEK ADVICE

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