IFRS Global office
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IFRS in Focus

IASB issues amendments to IFRS 11 *Joint Arrangements* to address the accounting for acquisitions of interests in joint operations

Contents

This edition of IFRS in Focus outlines the recent amendments to IFRS 11 *Joint Arrangements* which provide guidance on the accounting for the acquisition of an interest in a joint operation when the operation constitutes a business.

The Bottom Line

- The amendments address how a joint operator should account for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business. IFRS 11, as amended, now requires that such transactions shall be accounted for using the principles related to business combinations accounting in IFRS 3 *Business Combinations* and other standards.
- The relevant information required by those standards for business combinations should be disclosed.
- The most significant impacts will be the recognition of goodwill (when there is an excess of the consideration transferred over the identifiable net assets) and the recognition of deferred tax assets and liabilities.
- The amendments apply not only to acquisitions of interests in a joint operation, but also when a business is contributed to the joint operation on its formation.
- Consequential amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* have also been made.
- The amendments are to be applied prospectively and are effective from 1 January 2016, with earlier application permitted.

Why have these amendments been issued?

A joint operator is required to recognise its interest in a joint operation in accordance with IFRS 11 *Joint Arrangements* by recognising its share of the related assets, liabilities, revenues and expenses. However, neither IFRS 11 nor its predecessor standard IAS 31 *Interests in Joint Ventures* provided guidance on the accounting by a joint operator for the acquisition of an interest in a joint operation in which the activities of the joint operation constitute a business. Significant diversity in the accounting for such acquisitions has arisen in practice, with some entities applying business combinations accounting principles, whereas others allocate the total cost of the acquisition on the basis of relative fair values of the assets and liabilities of the joint operation.

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This resulted, for example, in the premium paid in addition to the fair value of the net assets being recognised as goodwill in some cases but being allocated to the identifiable assets in other cases. As a result of the lack of guidance in IFRS 11, the IASB was concerned that this diversity would continue. Consequently, the IASB amended IFRS 11 to address the accounting for acquisitions of interests in joint operations.

What is the scope of the amendments?

The amendments apply to the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3 *Business Combinations.* It applies to the acquisition of the initial interest as well as any additional interests in a joint operation.

The amendments also apply to the acquisition of an interest in a joint operation on its formation if a business is contributed to the joint operation. However, the amendments do not apply when there is no existing business, i.e. if no existing business is contributed to the joint operation on its formation and the formation of the joint operation coincides with the formation of the business.

The amendments do not apply to the acquisition of an interest in a joint operation when the parties are under common control before and after the transaction and that control is not transitory.

> Observation
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> The scope of the amendments is limited and they do not provide guidance on a number of common transactions in which interests in joint operations are acquired, such as the contribution of an asset but not a business to a joint operation on its formation.

What are the changes introduced by the amendments?

The amendments to IFRS 11 require that the relevant principles on business combinations accounting in IFRS 3 and other standards should be applied in accounting for the acquisition of an interest in a joint operation in which the activity constitutes a business. Accordingly, to the extent of its interest in the joint operation, a joint operator is required to:

(i) measure the identifiable assets and liabilities at fair value (except for exceptions in IFRS 3 or other standards);

(ii) recognise acquisition-related costs as expenses (except for costs to issue debt or equity securities);

(iii) recognise deferred tax assets and deferred tax liabilities (except for deferred tax liabilities arising from the initial recognition of goodwill);

(iv) recognise goodwill for any excess of the consideration transferred over the acquisition-date amounts of the net identifiable assets; and

(v) perform an impairment test at least annually for a cash generating unit to which goodwill has been allocated.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

If an entity acquires an additional interest in a joint operation, previously held interests are not remeasured.

IFRS 1 *First-time Adoption of International Financial Reporting Standards* was also amended so that the exemption for past business combinations also applies to past acquisitions of interests in joint operations in which the activity of the joint operation constitutes a business.

When do the new requirements apply?

The amendments to IFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

> Observation
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> The amendments to IFRS 11 apply prospectively, i.e. from the beginning of the first period in which the amendments are applied. Consequently, acquisitions of an interest in a joint operation in comparative periods should not be restated.

The consequential amendments to IFRS 1 apply for annual periods beginning on or after 1 January 2016. If the amendments to IFRS 11 are applied for an earlier period, the amendments to IFRS 1 should also be applied for that earlier period.

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