May 2014

International Financial Reporting Standard®

Accounting for Acquisitions of Interests in Joint Operations

Amendments to IFRS 11

IASB®

IFRS®

Accounting for Acquisitions of Interests in Joint Operations

(Amendments to IFRS 11)

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) is published by the International Accounting Standards Board (IASB).

ISBN: 978-1-909704-40-4

IFRS Foundation Publications Department
30 Cannon Street, London EC4M 6XH, United Kingdom
Tel: +44 (0)20 7332 2730 Fax: +44 (0)20 7332 2749
Email: publications@ifrs.org Web: www.ifrs.org

IFRS®

CONTENTS

Amendments to IFRS 11 *Joint Arrangements*

In the Introduction, paragraph IN4A and its related heading and paragraph IN9A are added. New text is underlined.

Reasons for amending IFRS 11 in May 2014

IN4A In May 2014 the International Accounting Standards Board amended IFRS 11 to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business.

...

IN9A This IFRS requires the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 *Business Combinations*, to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs except for those principles that conflict with the guidance in this IFRS. In addition, the acquirer shall disclose the information required by IFRS 3 and other IFRSs for business combinations.

Paragraph 21A is added. Paragraphs 20–21 have been included for ease of reference but are not amended. New text is underlined.

Joint operations

20 A joint operator shall recognise in relation to its interest in a joint operation:

(a) its assets, including its share of any assets held jointly;

(b) its liabilities, including its share of any liabilities incurred jointly;

(c) its revenue from the sale of its share of the output arising from the joint operation;

(d) its share of the revenue from the sale of the output by the joint operation; and

(e) its expenses, including its share of any expenses incurred jointly.

21 A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

21A When an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3, it shall apply, to the extent of its share in accordance with paragraph 20, all of the principles on business combinations accounting in IFRS 3, and other IFRSs, that do not conflict with the guidance in this IFRS and disclose the information that is required in those IFRSs in relation to business combinations. This applies to the acquisition of both the initial interest and additional interests in a joint operation in which the activity of the joint operation constitutes a business. The accounting for the acquisition of an interest in such a joint operation is specified in paragraphs B33A–B33D.

In Appendix B, the main heading before paragraph B34 is amended and paragraphs B33A–B33D and their related heading are added. New text is underlined.

Financial statements of parties to a joint arrangement (paragraphs 21A–22)

Accounting for acquisitions of interests in joint operations

B33A When an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3, it shall apply, to the extent of its share in accordance with paragraph 20, all of the principles on business combinations accounting in IFRS 3, and other IFRSs, that do not conflict with the guidance in this IFRS and disclose the information required by those IFRSs in relation to business combinations. The principles on business combinations accounting that do not conflict with the guidance in this IFRS include but are not limited to:

(a) measuring identifiable assets and liabilities at fair value, other than items for which exceptions are given in IFRS 3 and other IFRSs;

(b) recognising acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with the exception that the costs to issue debt or equity securities are recognised in accordance with IAS 32 *Financial Instruments: Presentation* and IFRS 9;[1]

(c) recognising deferred tax assets and deferred tax liabilities that arise from the initial recognition of assets or liabilities, except for deferred tax liabilities that arise from the initial recognition of goodwill, as required by IFRS 3 and IAS 12 *Income Taxes* for business combinations;

(d) recognising the excess of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, if any, as goodwill; and

(e) testing for impairment a cash-generating unit to which goodwill has been allocated at least annually, and whenever there is an indication that the unit may be impaired, as required by IAS 36 *Impairment of Assets* for goodwill acquired in a business combination.

B33B Paragraphs 21A and B33A also apply to the formation of a joint operation if, and only if, an existing business, as defined in IFRS 3, is contributed to the joint operation on its formation by one of the parties that participate in the joint operation. However, those paragraphs do not apply to the formation of a joint

1 If an entity applies these amendments but does not yet apply IFRS 9, the reference in these amendments to IFRS 9 shall be read as a reference to IAS 39 *Financial Instruments: Recognition and Measurement*.

operation if all of the parties that participate in the joint operation only contribute assets or groups of assets that do not constitute businesses to the joint operation on its formation.

B33C A joint operator might increase its interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3, by acquiring an additional interest in the joint operation. In such cases, previously held interests in the joint operation are not remeasured if the joint operator retains joint control.

B33D Paragraphs 21A and B33A–B33C do not apply on the acquisition of an interest in a joint operation when the parties sharing joint control, including the entity acquiring the interest in the joint operation, are under the common control of the same ultimate controlling party or parties both before and after the acquisition, and that control is not transitory.

In Appendix C, paragraph C1AA and paragraph C14A and its related heading are added.

Effective date

...

C1AA *Accounting for Acquisitions of Interests in Joint Operations* (Amendments to IFRS 11), issued in May 2014, amended the heading after paragraph B33 and added paragraphs 21A, B33A–B33D and C14A and their related headings. An entity shall apply those amendments prospectively in annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies those amendments in an earlier period it shall disclose that fact.

...

Accounting for acquisitions of interests in joint operations

C14A *Accounting for Acquisitions of Interests in Joint Operations* (Amendments to IFRS 11), issued in May 2014, amended the heading after paragraph B33 and added paragraphs 21A, B33A–B33D, C1AA and their related headings. An entity shall apply those amendments prospectively for acquisitions of interests in joint operations in which the activities of the joint operations constitute businesses, as defined in IFRS 3, for those acquisitions occurring from the beginning of the first period in which it applies those amendments. Consequently, amounts recognised for acquisitions of interests in joint operations occurring in prior periods shall not be adjusted.

Consequential amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Paragraph 39W is added. New text is underlined.

Effective date

...

39W *Accounting for Acquisitions of Interests in Joint Operations* (Amendments to IFRS 11), issued in May 2014, amended paragraph C5. An entity shall apply that amendment in annual periods beginning on or after 1 January 2016. If an entity applies related amendments to IFRS 11 from *Accounting for Acquisitions of Interests in Joint Operations* (Amendments to IFRS 11) in an earlier period, the amendment to paragraph C5 shall be applied in that earlier period.

In Appendix C, paragraph C5 is amended. Deleted text is struck through and new text is underlined.

Appendix C
Exemptions for business combinations

...

C5 The exemption for past business combinations also applies to past acquisitions of investments in associates, ~~and of~~ interests in joint ventures and interests in joint operations in which the activity of the joint operation constitutes a business, as defined in IFRS 3. Furthermore, the date selected for paragraph C1 applies equally for all such acquisitions.

Approval by the Board of Accounting for *Acquisitions of Interests in Joint Operations* (Amendments to IFRS 11) issued in May 2014

Accounting for Acquisitions of Interests in Joint Operations was approved for issue by the sixteen members of the International Accounting Standards Board.

Hans Hoogervorst	Chairman
Ian Mackintosh	Vice-Chairman
Stephen Cooper	
Philippe Danjou	
Martin Edelmann	
Jan Engström	
Patrick Finnegan	
Amaro Luiz de Oliveira Gomes	
Gary Kabureck	
Suzanne Lloyd	
Patricia McConnell	
Takatsugu Ochi	
Darrel Scott	
Chungwoo Suh	
Mary Tokar	
Wei-Guo Zhang	

Amendments to the Basis for Conclusions on IFRS 11 *Joint Arrangements*

This Basis for Conclusions accompanies, but is not part of, the amendments.

Paragraphs BC45A–BC45N and BC69C and their related headings are added. New text is underlined.

Accounting for acquisitions of interests in joint operations

BC45A The IFRS Interpretations Committee (the Interpretations Committee) reported to the IASB that practice differed in accounting for the acquisition of interests in jointly controlled operations or jointly controlled assets, as specified in IAS 31.[2] In particular, the Interpretations Committee noted diversity in practice if the activity of the jointly controlled operations or jointly controlled assets constitutes a business, as defined in IFRS 3.

BC45B The principal approaches observed in practice were:

(a) **IFRS 3 approach:** some preparers of IFRS financial statements, when accounting for the acquisition of interests in jointly controlled operations or jointly controlled assets in which the activity constitutes a business, applied IFRS 3 and the guidance on business combinations in other IFRSs. Identifiable assets and liabilities were measured, subject to the exceptions in IFRS 3, at fair value and the residual was recognised as goodwill. Furthermore, transaction costs were not capitalised and deferred taxes were recognised on initial recognition of assets and liabilities. Only guidance on business combinations in IFRS 3 and other IFRSs that was not appropriate for the acquisition of an interest in jointly controlled operations or jointly controlled assets was not applied, for example, the guidance on non-controlling interests.

(b) **cost approach:** others allocated the total cost of acquiring the interest in the joint operation to the individual identifiable assets on the basis of their relative fair values. Accordingly, any premium paid was allocated to the identifiable assets rather than being recognised as goodwill. Transaction costs were capitalised and deferred taxes were not recognised, because of the initial recognition exceptions in paragraphs 15 and 24 of IAS 12 *Income Taxes*.

(c) **hybrid approach:** a third group of preparers of IFRS financial statements only applied the principles on business combinations accounting in IFRS 3 and other IFRSs to issues that were not addressed elsewhere in IFRS. Identifiable assets and liabilities were measured at fair value, with exceptions, and the residual was recognised as a separate asset, ie goodwill. Transaction costs, however, were capitalised and contingent liabilities and deferred taxes were not recognised because

2 IFRS 11 *Joint Arrangements* shall be applied for annual periods beginning on or after 1 January 2013. It replaces IAS 31 *Interests in Joint Ventures*.

these issues were considered as being addressed elsewhere in IFRS. Deferred taxes were not recognised, because of the initial recognition exceptions in paragraphs 15 and 24 of IAS 12.

BC45C The different approaches have led to different accounting outcomes, in particular:

(a) in accounting for premiums paid in excess of the value of the identifiable net assets;

(b) in capitalising or expensing acquisition-related costs; and

(c) in accounting for deferred tax assets and deferred tax liabilities that arise from the initial recognition of assets and liabilities.

BC45D The IASB noted that the diversity in practice resulted from the fact that IAS 31 did not give specific guidance on the accounting for acquisitions of interests in jointly controlled operations or jointly controlled assets, the activity of which constitutes a business, as defined in IFRS 3. The IASB was concerned that this diversity in practice may continue in the accounting for acquisitions of interests in joint operations, as defined in IFRS 11, when the activities of those joint operations constitute businesses. Arrangements that were formerly 'jointly controlled operations' and 'jointly controlled assets' in IAS 31 are joint operations in IFRS 11 (see paragraph BC26). As was the case in IAS 31, a joint operator recognises its (share in the) assets, liabilities, revenue and expenses relating to such arrangements.

BC45E The IASB considered the guidance in current IFRS on the acquisition of an interest in a business. The IASB recognised that the acquisition of an interest in a joint operation does not meet the definition of a business combination in IFRS 3. Nonetheless, the IASB concluded that the most appropriate approach to account for an acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3, is to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs that do not conflict with the guidance in this IFRS.

BC45F The IASB reached this conclusion because:

(a) it considers that separate recognition of goodwill, when present, is preferable to allocating premiums to identifiable assets acquired on the basis of relative fair values;

(b) it thinks that an approach that limits the application of business combinations accounting only to issues that are not addressed elsewhere in IFRS lacks a strong conceptual basis; and

(c) the guidance in IFRS 3 and other IFRSs on business combinations give a comprehensive and consistent set of accounting principles for the different components of such complex transactions as acquisitions of interests in businesses.

BC45G The IASB also concluded that an entity that is acquiring an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3, shall disclose the relevant information that is specified in

IFRS 3 and other IFRSs on business combinations. This is because these requirements are an integral part of the financial reporting about the acquisition of interests in businesses.

BC45H Consequently, the IASB amended IFRS 11 to address the accounting for both 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, and the related disclosure requirements, as a means to resolve the diversity in practice.

BC45I The IASB noted that the fact patterns raised with the Interpretations Committee were limited to circumstances involving a business, as defined in IFRS 3. The IASB noted that IFRS already provides guidance for the acquisition of an interest in an asset or a group of assets that is not a business, as defined in IFRS 3. Consequently, the amendments apply only when an entity acquires an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, either on formation of that joint operation or when acquiring an interest in an existing joint operation.

BC45J The Exposure Draft *Acquisition of an Interest in a Joint Operation* (Proposed amendment to IFRS 11), which was published in December 2012, used the term 'relevant principles on business combinations accounting in IFRS 3 and other IFRSs' to describe the principles that have to be applied in accounting for the acquisition of an interest in a joint operation in which the activity constitutes a business. In analysing the comment letters on the Exposure Draft, the IASB noted divergent understanding of what the 'relevant principles on business combinations accounting in IFRS 3 and other IFRSs' are, within the context of the proposed amendment.

BC45K In order to avoid diversity in practice from the application of the term 'relevant principles on business combinations accounting in IFRS 3 and other IFRSs', the IASB decided to replace this term with 'all of the principles on business combinations accounting in IFRS 3 and other IFRSs that do not conflict with the guidance in this IFRS'. In addition, to aid understanding the application guidance includes a non-exhaustive list of five principles related to business combinations accounting in IFRS 3 and other IFRSs that do not conflict with the principles in this IFRS. Four of them relate to the areas in which the Interpretations Committee observed different accounting outcomes from the application of different approaches to the accounting for acquisitions of interests in jointly controlled operations or jointly controlled assets in which the activity constitutes a business (see paragraphs BC45B–BC45C).

BC45L The IASB also noted that the reference to 'all of the principles on business combinations accounting in IFRS 3 and other IFRSs' is ambiguous for acquisitions of additional interests in joint operations that result in the joint operator retaining joint control of the joint operation. It might be understood as a reference to either:

(a) paragraph 42 of IFRS 3 with the result of remeasuring a previously held interest in a joint operation on the acquisition of an additional interest while retaining joint control; or

(b) paragraph 23 of IFRS 10 with the result of not remeasuring a previously held interest in a joint operation on the acquisition of an additional interest while retaining joint control.

BC45M In order to resolve this ambiguity, the IASB decided to clarify that previously held interests in a joint operation are not remeasured if the joint operator retains joint control. Paragraph 23 of IFRS 10 addresses the accounting for the acquisition of an additional interest in a business that is already controlled by the acquirer. This is the analogous transaction to the acquisition of an interest in a business that is already jointly controlled by the acquirer and will continue to be jointly controlled by it. Paragraph 42 of IFRS 3 instead addresses the acquisition of an interest that results in the acquirer obtaining control over the business. This is the analogous transaction to the acquisition of an interest in a business that results in the acquirer obtaining joint control of the business.

BC45N The IASB decided to add a scope exclusion for joint operations under common control to the amendments to IFRS 11. The IASB concluded that the amendments to IFRS 11 should not require the application of all of the principles on business combinations accounting for transactions that would be outside the scope of IFRS 3 if control, rather than joint control, would be obtained or retained by the acquirer.

...

Accounting for acquisitions of interests in joint operations

BC69C The IASB considered the transition provisions and effective date of the amendments to IFRS 11. The IASB noted that applying all of the principles of business combinations accounting in IFRS 3 and other IFRSs that do not conflict with the guidance in this IFRS to transactions that have previously been accounted for by applying one of the divergent approaches presented in paragraph BC45B might involve the use of hindsight in determining the acquisition-date fair values of the identifiable assets and liabilities that are to be recognised as part of the transaction and in performing the impairment test for goodwill. Consequently, the IASB decided that an entity would apply the amendments to IFRS 11 prospectively for transactions occurring in annual periods beginning on or after 1 January 2016 with early application permitted.

Amendments to the Illustrative Examples on IFRS 11 *Joint Arrangements*

These examples accompany, but are not part of, IFRS 11. They illustrate aspects of IFRS 11 but are not intended to provide interpretative guidance.

The footnote to paragraph IE48 is amended. Deleted text is struck through and new text is underlined.

In ~~this~~ these examples monetary amounts are denominated in 'currency units (CU)'.

Paragraphs IE53–IE73 and their related headings are added. New text is underlined.

Example 7—Accounting for acquisitions of interests in joint operations in which the activity constitutes a business

IE53 Companies A, B and C have joint control of Joint Operation D whose activity constitutes a business, as defined in IFRS 3 *Business Combinations*.

IE54 Company E acquires company A's 40 per cent ownership interest in Joint Operation D at a cost of CU300 and incurs acquisition-related costs of CU50.

IE55 The contractual arrangement between the parties that Company E joined as part of the acquisition establishes that Company E's shares in several assets and liabilities differ from its ownership interest in Joint Operation D. The following table sets out Company E's share in the assets and liabilities related to Joint Operation D as established in the contractual arrangement between the parties:

	Company E's share in the assets and liabilities related to Joint Operation D
Property, plant and equipment	48%
Intangible assets (excluding goodwill)	90%
Accounts receivable	40%
Inventory	40%
Retirement benefit obligations	15%
Accounts payable	40%
Contingent liabilities	56%

Analysis

IE56 Company E recognises in its financial statements its share of the assets and liabilities resulting from the contractual arrangement (see paragraph 20).

IE57 It applies the principles on business combinations accounting in IFRS 3 and other IFRSs for identifying, recognising, measuring and classifying the assets acquired, and the liabilities assumed, on the acquisition of the interest in Joint

Operation D. This is because Company E acquired an interest in a joint operation in which the activity constitutes a business (see paragraph 21A).

IE58 However, Company E does not apply the principles on business combinations accounting in IFRS 3 and other IFRSs that conflict with the guidance in this IFRS. Consequently, in accordance with paragraph 20, Company E recognises, and therefore measures, in relation to its interest in Joint Operation D, only its share in each of the assets that are jointly held and in each of the liabilities that are incurred jointly, as stated in the contractual arrangement. Company E does not include in its assets and liabilities the shares of the other parties in Joint Operation D.

IE59 IFRS 3 requires the acquirer to measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values with limited exceptions; for example, deferred tax assets and deferred tax liabilities are not measured at fair value but are measured in accordance with IAS 12 *Income Taxes*. Such measurement does not conflict with this IFRS and thus those requirements apply.

IE60 Consequently, Company E determines the fair value, or other measure specified in IFRS 3, of its share in the identifiable assets and liabilities related to Joint Operation D. The following table sets out the fair value or other measure specified by IFRS 3 of Company E's shares in the identifiable assets and liabilities related to Joint Operation D:

	Fair value or other measure specified by IFRS 3 for Company E's shares in the identifiable assets and liabilities of Joint Operation D
	CU
Property, plant and equipment	138
Intangible assets (excluding goodwill)	72
Accounts receivable	84
Inventory	70
Retirement benefit obligations	(12)
Accounts payable	(48)
Contingent liabilities	(52)
Deferred tax liability	(24)
Net assets	**228**

IE61 In accordance with IFRS 3, the excess of the consideration transferred over the amount allocated to Company E's shares in the net identifiable assets is recognised as goodwill:

Consideration transferred	CU300
Company E's shares in the identifiable assets and liabilities relating to its interest in the joint operation	CU228
Goodwill	**CU72**

IE62 Acquisition-related costs of CU50 are not considered to be part of the consideration transferred for the interest in the joint operation. They are recognised as expenses in profit or loss in the period that the costs are incurred and the services are received (see paragraph 53 of IFRS 3).

Example 8—Contributing the right to use know-how to a joint operation in which the activity constitutes a business

IE63 Companies A and B are two companies whose business is the construction of high performance batteries for diverse applications.

IE64 In order to develop batteries for electric vehicles they set up a contractual arrangement (Joint Operation Z) to work together. Companies A and B share joint control of Joint Operation Z. This arrangement is a joint operation in which the activity constitutes a business, as defined in IFRS 3.

IE65 After several years, the joint operators (Companies A and B) concluded that it is feasible to develop a battery for electric vehicles using Material M. However, processing Material M requires specialist know-how and thus far, Material M has only been used in the production of cosmetics.

IE66 In order to get access to existing know-how in processing Material M, Companies A and B arrange for Company C to join as another joint operator by acquiring an interest in Joint Operation Z from Companies A and B and becoming a party to the contractual arrangements.

IE67 Company C's business so far has been solely the development and production of cosmetics. It has long-standing and extensive knowledge in processing Material M.

IE68 In exchange for its share in Joint Operation Z, Company C pays cash to Companies A and B and grants the right to use its know-how in processing Material M for the purposes of Joint Operation Z. In addition, Company C seconds some of its employees who are experienced in processing Material M to Joint Operation Z. However, Company C does not transfer control of the know-how to Companies A and B or Joint Operation Z because it retains all the rights to it. In particular, Company C is entitled to withdraw the right to use its know-how in processing Material M and to withdraw its seconded employees without any restrictions or compensation to Companies A and B or Joint Operation Z if it ceases its participation in Joint Operation Z.

IE69 The fair value of Company C's know-how on the date of the acquisition of the interest in the joint operation is CU1,000. Immediately before the acquisition, the carrying amount of the know-how in the financial statements of Company C was CU300.

Analysis

IE70 Company C has acquired an interest in Joint Operation Z in which the activity of the joint operation constitutes a business, as defined in IFRS 3.

IE71 In accounting for the acquisition of its interest in the joint operation, Company C applies all the principles on business combinations accounting in IFRS 3 and other IFRSs that do not conflict with the guidance in this IFRS (see paragraph 21A). Company C therefore recognises in its financial statements its share of the assets and liabilities resulting from the contractual arrangement (see paragraph 20).

IE72 Company C granted the right to use its know-how in processing Material M to Joint Operation Z as part of joining Joint Operation Z as a joint operator. However, Company C retains control of this right because it is entitled to withdraw the right to use its know-how in processing Material M and to withdraw its seconded employees without any restrictions or any compensation to Companies A and B or Joint Operation Z if it ceases its participation in Joint Operation Z.

IE73 Consequently, Company C continues to recognise the know-how in processing Material M after the acquisition of the interest in Joint Operation Z because it retains all the rights to it. This means that Company C will continue to recognise the know-how based on its carrying amount of CU300. As a consequence of retaining control of the right to use the know-how that it granted to the joint operation, Company C has granted the right to use the know-how to itself. Consequently, Company C does not remeasure the know-how, and it does not recognise a gain or loss on the grant of the right to use it.