AASB Standard **AASB 2014-3**
August 2014

Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations

[AASB 1 & AASB 11]

Australian Government

Australian Accounting Standards Board

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Australian Accounting Standard AASB 2014-3 *Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations* is set out in paragraphs 1 – 14. All the paragraphs have equal authority.

PREFACE

Introduction

This Standard makes amendments to Australian Accounting Standards AASB 1 *First-time Adoption of Australian Accounting Standards* and AASB 11 *Joint Arrangements*.

These amendments arise from the issuance of International Financial Reporting Standard *Accounting for Acquisitions of Interests in Joint Operations* (Amendments to IFRS 11) by the International Accounting Standards Board (IASB) in May 2014, and the IASB's editorial corrections process.

Main Features of this Standard

Main Requirements

This Standard amends AASB 11 to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require:

(a) the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in AASB 3 *Business Combinations*, to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11; and

(b) the acquirer to disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations.

This Standard also makes an editorial correction to AASB 11.

Application Date

This Standard applies to annual reporting periods beginning on or after 1 January 2016. Earlier application is permitted for annual reporting periods beginning on or after 1 January 2005 but before 1 January 2016, provided that AASB 11 is also applied to the same period.

ACCOUNTING STANDARD AASB 2014-3

The Australian Accounting Standards Board makes Accounting Standard AASB 2014-3 *Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations* under section 334 of the *Corporations Act 2001*.

Dated 11 August 2014

Angus Thomson
Acting Chair – AASB

ACCOUNTING STANDARD AASB 2014-3

AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – ACCOUNTING FOR ACQUISITIONS OF INTERESTS IN JOINT OPERATIONS

Objective

1 The objective of this Standard is to make amendments to:

(a) AASB 1 *First-time Adoption of Australian Accounting Standards*; and

(b) AASB 11 *Joint Arrangements*;

as a consequence of the issuance of International Financial Reporting Standard *Accounting for Acquisitions of Interests in Joint Operations* (Amendments to IFRS 11) by the International Accounting Standards Board in May 2014, and to make an editorial correction.

Application

2 This Standard applies to:

(a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;

(b) general purpose financial statements of each other reporting entity; and

(c) financial statements that are, or are held out to be, general purpose financial statements.

3 This Standard applies to annual reporting periods beginning on or after 1 January 2016.

4 This Standard may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2016, provided that AASB 11 is also applied to the same period. When an entity applies this Standard to such an annual reporting period, it shall disclose that fact.

5 This Standard uses underlining, striking out and other typographical material to identify some of the amendments to a Standard, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material.

Commencement

6 This Standard commences on the day this Standard is made by the Australian Accounting Standards Board.

Amendments to AASB 1

7 Paragraph 39W is added as follows:

39W AASB 2014-3 *Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations*, issued in August 2014, amended paragraph C5. An entity shall apply that amendment in annual reporting periods beginning on or after 1 January 2016. If an entity applies related amendments to AASB 11 from AASB 2014-3 in an earlier period, the amendment to paragraph C5 shall be applied in that earlier period.

8 Paragraph C5 is amended as follows (new text underlined and deleted text is struck through):

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 AASB 3. Furthermore, the date selected for paragraph C1 applies equally for all such acquisitions.

Amendments to AASB 11

9 Paragraph 21A is added as follows:

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 AASB 3, it shall apply, to the extent of its share in accordance with paragraph 20, all of the principles on business combinations accounting in AASB 3, and other Australian Accounting Standards, that do not conflict with the guidance in this Standard and disclose the information that is required in those Australian Accounting Standards 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.

10 The main heading before paragraph B34 is amended (new text is underlined) and paragraphs B33A–B33D and their related heading are added as follows:

Financial statements of parties to a joint arrangement (paragraph<u>s 21A–</u>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 AASB 3, it shall apply, to the extent of its share in accordance with paragraph 20, all of the principles on business combinations accounting in AASB 3, and other Australian Accounting Standards, that do not conflict with the guidance in this Standard and disclose the information required by those Australian Accounting Standards in relation to business combinations. The principles on business combinations accounting that do not conflict with the guidance in this Standard include but are not limited to:

(a) measuring identifiable assets and liabilities at fair value, other than items for which exceptions are given in AASB 3 and other Australian Accounting Standards;

(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 AASB 132 *Financial Instruments: Presentation* and AASB 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 AASB 3 and AASB 112 *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 AASB 136 *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 AASB 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 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 AASB 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

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1 If an entity applies these amendments but does not yet apply AASB 9, the reference in these amendments to AASB 9 shall be read as a reference to AASB 139 *Financial Instruments: Recognition and Measurement*.

same ultimate controlling party or parties both before and after the acquisition, and that control is not transitory.

11 Paragraph C1AA, and paragraph C14A and its related heading are added as follows:

C1AA AASB 2014-3 *Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations*, issued in August 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 reporting 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 AASB 2014-3, issued in August 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 AASB 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.

12 Paragraphs C12A and C12B are renumbered as paragraphs C13A and C13B, and with the preceding heading moved to follow paragraph C13.

13 In the Illustrative Examples accompanying AASB 11, the footnote to paragraph IE48 is amended as follows (new text underlined and deleted text is struck through):

In ~~this~~ <u>these</u> example<u>s</u> monetary amounts are denominated in ‘currency units (CU)’.

14 Paragraphs IE53–IE73 and their related headings are added as follows:

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 AASB 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 AASB 3 and other Australian Accounting Standards 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 AASB 3 and other Australian Accounting Standards that conflict with the guidance in this Standard. 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 AASB 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 AASB 112 *Income Taxes*. Such measurement does not conflict with this Standard and thus those requirements apply.

IE60 Consequently, Company E determines the fair value, or other measure specified in AASB 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 AASB 3 of Company E's shares in the identifiable assets and liabilities related to Joint Operation D:

	Fair value or other measure specified by AASB 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 AASB 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 AASB 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 AASB 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 AASB 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 AASB 3 and other Australian Accounting Standards that do not conflict with the guidance in this Standard (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.