AMENDMENTS TO STATUTORY BOARD FINANCIAL REPORTING STANDARD

SB-FRS 111

Accounting for Acquisitions of Interests in Joint Operations

(Amendments to SB-FRS 111)

The Amendments apply for annual periods beginning on or after 1 January 2016.
Earlier application is permitted.

CONTENTS

Amendments to SB-FRS 111 *Joint Arrangements*

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

Reasons for amending SB-FRS 111 in October 2014

IN4A In October 2014, SB-FRS 111 was amended to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business.

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IN9A This SB-FRS requires the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in SB-FRS 103 *Business Combinations*, to apply all of the principles on business combinations accounting in SB-FRS 103 and other SB-FRSs except for those principles that conflict with the guidance in this SB-FRS. In addition, the acquirer shall disclose the information required by SB-FRS 103 and other SB-FRSs 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 SB-FRSs 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 SB-FRS 103, it shall apply, to the extent of its share in accordance with paragraph 20, all of the principles on business combinations accounting in SB-FRS 103, and other SB-FRSs, that do not conflict with the guidance in this SB-FRS and disclose the information that is required in those SB-FRSs 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 SB-FRS 103, it shall apply, to the extent of its share in accordance with paragraph 20, all of the principles on business combinations accounting in SB-FRS 103, and other SB-FRSs, that do not conflict with the guidance in this SB-FRS and disclose the information required by those SB-FRSs in relation to business combinations. The principles on business combinations accounting that do not conflict with the guidance in this SB-FRS include but are not limited to:

(a) measuring identifiable assets and liabilities at fair value, other than items for which exceptions are given in SB-FRS 103 and other SB-FRSs;

(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 SB-FRS 32 *Financial Instruments: Presentation* and SB-FRS 39;

(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 SB-FRS 103 and SB-FRS 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 SB-FRS 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 SB-FRS 103, 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 SB-FRS 103, 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

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C1AA *Accounting for Acquisitions of Interests in Joint Operations* (Amendments to SB-FRS 111), issued in October 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.

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Accounting for acquisitions of interests in joint operations

C14A *Accounting for Acquisitions of Interests in Joint Operations* (Amendments to SB-FRS 111), issued in October 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 SB-FRS 103, 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 SB-FRS 101 *First-time Adoption of Financial Reporting Standards*

Paragraph 39W is added. New text is underlined.

Effective date

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<u>39W</u> <u>*Accounting for Acquisitions of Interests in Joint Operations* (Amendments to SB-FRS 111), issued in October 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 SB-FRS 111 from *Accounting for Acquisitions of Interests in Joint Operations* (Amendments to SB-FRS 111) in an earlier period, the amendment to paragraph C5 shall be applied in that earlier period.</u>

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

Appendix C
Exemptions for business combinations

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C5 The exemption for past business combinations also applies to past acquisitions of investments in associates, ~~and of~~ interests in joint ventures <u>and interests in joint operations in which the activity of the joint operation constitutes a business, as defined in SB-FRS 103</u>. Furthermore, the date selected for paragraph C1 applies equally for all such acquisitions.

Amendments to the Illustrative Examples on SB-FRS 111 *Joint Arrangements*

These examples accompany, but are not part of, SB-FRS 111. They illustrate aspects of SB-FRS 111 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 SB-FRS 103 *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 SB-FRS 103 and other SB-FRSs for identifying, recognising, measuring and classifying the assets acqu ired, 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 SB-FRS 103 and other SB-FRSs that conflict with the guidance in this SB-FRS. 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 oth er parties in Joint Operation D.

IE59 SB-FRS 103 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 SB-FRS 12 *Income Taxes*. Such measurement does not conflict with this SB-FRS and thus those requirements apply.

IE60 Consequently, Company E determines the fair value, or other measure specified in SB-FRS 103, 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 SB-FRS 103 of Company E's shares in the identifiable assets and liabilities related to Joint Operation D:

	Fair value or other measure specified by SB-FRS 103 for Company E's shares in the identifiable assets and liabilities ofJoint 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 SB-FRS 103, 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 SB-FRS 103).

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 SB-FRS 103.

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 SB-FRS 103.

IE71 In accounting for the acquisition of its interest in the joint operation, Company C applies all the principles on business combinations accounting in SB-FRS 103 and other SB-FRSs that do not conflict with the guidance in this SB-FRS (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.