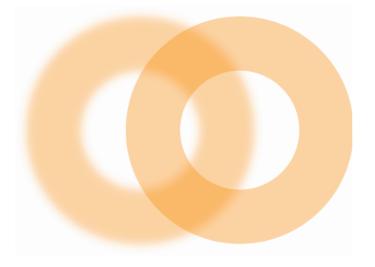


Amendments to HKFRS 11 - Accounting for Acquisitions of Interests in Joint Operations

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MAIN FEATURES

- The amendments are issued to address the accounting for acquisitions of interests in joint operations, in which (i) the relevant principles on business combinations accounting in HKFRS 3 and other HKFRSs should be applied and (ii) the relevant information that is required in those HKFRSs in relation to business combination should be disclosed
- The amendments are to be applied prospectively
- Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted



Background

Currently, neither International Financial Standard ("IFRS") Reporting Joint Arrangements nor the predecessor International Accounting Standard 31 Interests in Joint Ventures provides guidance on the accounting treatment for acquisition of interests in joint operations in which the activity of the joint operation constitutes a business. As a result, there is significant diversity in practice by joint operators in accounting for the transactions when such circumstances exist. In order to align the diversity with the same practice, the International Accounting Standards Board has issued these amendments, Amendments to IFRS 11 - Accounting for Acquisitions of Interests in Joint Operations, in May 2014 to provide a comprehensive guidance on the accounting for such transactions.

Subsequently in June 2014, the Hong Kong Institute of Certified Public Accountants also issued the same amendments, Amendments to Hong Kong Financial Reporting Standard ("HKFRS") 11 - Accounting for Acquisitions of Interests in Joint Operations, so as to maintain the convergence with IFRSs.

What is scope of the amendments?

The following table summarises the circumstances when amendments to HKFRS 11 apply:

Within the scope

Acquisition of initial and additional interests in a joint operation in which the activity of the joint operation constitutes a business, as defined in HKFRS 3 Business Combinations

Outside the scope

- **X** 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 common control of the same ultimate controlling party or parties both before and after the acquisition, and that control is not transitory
- ✓ Formation of a joint operation if, and only if, an existing business, as defined in HKFRS 3, is contributed to the joint operation on its formation by one of the parties that participate in the joint operation
- X 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

What are the amendments?

The amendments provide a clear guidance on accounting for acquisition of interests in a joint operation by adding paragraphs 21A, and B33A-B33D in HKFRS 11.

In accordance with paragraph 21A of HKFRS 11, when an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in HKFRS 3, it should apply, to the extent of its share of assets, liabilities, revenue and expenses in relation to its interests in a joint operation, all of the principles on business combinations accounting in HKFRS 3, and other HKFRSs, that do not conflict with the guidance in HKFRS 11 and disclose the information that is required in those HKFRSs in relation to business combinations.

Paragraph B33A of HKFRS 11 further clarified that the principles on business combinations accounting that do not conflict with the guidance in HKFRS 11 include but are not limited to:

- a) measuring identifiable assets and liabilities at fair value (except for those exceptions given in HKFRS 3 and other HKFRSs);
- b) recognising acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received (except for cost to issue debt or equity securities in which such costs should be recognised in accordance with Hong Kong Accounting Standard ("HKAS") 32 Financial Instruments: Presentation and HKFRS 9 Financial Instruments or HKAS 39 Financial *Instruments: Recognition and Measurement* if HKFRS 9 has not been applied);
- 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 initial recognition of goodwill), as required by HKFRS 3 and HKAS 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 of 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 HKAS 36 Impairment of Assets for goodwill acquired in a business combination.

Besides, paragraph B33C of HKFRS 11 stated that in the case that a joint operator increases its interest in a joint operation in which the activity of the joint operation constitutes a business as defined in HKFRS 3, by acquiring an additional interest in the joint operation, the previously held interests in the joint operation are not remeasured if the joint operator retains joint control.

Paragraph C5 of HKFRS 1 First-time Adoption of HKFRSs is also amended so that the exemption for past business combinations also applies to past acquisition of interests in joint operations in which the activity of the joint operation constitutes a business, as defined in HKFRS 3.

When will these amendments become effective?

The amendments to HKFRS 11 will become effective for financial statements with annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

An entity shall apply these amendments prospectively for acquisitions of interests in joint operations in which the activities of the joint operations constitute business, as defined in HKFRS 3, occurring from the beginning of the first period for which it applies those amendments. Consequently, amounts recognised for acquisitions of interests in joint operations occurring in prior periods shall not be adjusted.

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