

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

Newsletter – Issue No. 04/2014

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 Reporting Standard (“IFRS”) 11 *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	Outside 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 <i>Business Combinations</i>	✗ 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	✗ 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.

Contact us

HONG KONG

43/F., The Lee Gardens,
33 Hysan Avenue,
Causeway Bay, Hong Kong
Tel: (852) 3583 3800
Fax: (852) 3583 8001
Email: info@shinewing.hk
Website: www.shinewing.hk

CHENGDU

12/F, Block A, No.1, Hang Kong Road,
Air China Century Center, Chengdu,
PRC (Postal Code: 610041)
Tel: (86) 28 8672 2255
Fax: (86) 28 8529 3622

TIANJIN

21/F, Xinda Plaza, No.188, Jiefang Road,
Heping District, Tianjin, PRC
(Postal Code: 300042)
Tel: (86) 22 5829 6288
Fax: (86) 22 5829 6299

CHANGCHUN

7/F, Building 7, Wanhao International Business
Plaza, No.9399, People Street, Changchun,
Jilin, PRC (Postal Code: 130022)
Tel: (86) 431 8193 9933
Fax: (86) 431 8190 2003

DALIAN

15/F, Block B, Karen International Mansion,
No.1-1 Section A Wucai Town,
Dalian Development Area, Liaoning,
PRC (Postal Code: 116600)
Tel: (86) 0411 8762 6818
Fax: (86) 0411 8762 6307

FUZHOU

13/F, Block A, Hongli Mansion, No.168,
Hudong Road, Fuzhou, 350003,
PRC (Postal Code: 350003)
Tel: (86) 0591 2830 9955
Fax: (86) 0591 2830 9000

WUHAN

Room 2701-2709, 27/F, Block 4, Xingguang
Wuxian Building (Guanggu Yinzuo), No.727
Luoyu Road, Donghu New Technology
Development Zone, Wuhan, Hubei, PRC
(Postal Code: 430071)
Tel: (86) 027 5975 9900
Fax: (86) 027 5975 9922

SINGAPORE

151 Chin Swee Road, No. 02-05/06 Manhattan
House, Singapore (Postal Code: 169876)
Tel: (65) 6732 4150
Fax: (65) 6732 4152

BEIJING

9/F, Block A, Fu Hua Mansion
No.8 Chaoyang Men Beidajie,
Dongcheng District, Beijing,
PRC (Postal Code: 100027)
Tel: (86) 10 6554 2288
Fax: (86) 10 6554 7190

SHANGHAI

32/F, China Development Bank Tower,
No.500, Pudong South Road, Pudong New Area,
Shanghai, PRC (Postal Code: 200120)
Tel: (86) 21 6164 3939
Fax: (86) 21 6164 3900

QINGDAO

27/F, HuaYin Mansion, No.5,
Donghai Road(west), Shinan District, Qingdao,
PRC (Postal Code: 266071)
Tel: (86) 532 8089 5858
Fax: (86) 532 8089 5959

YINCHUAN

11/F, Investment Plaza, No.65,
Hubin Street(west), Xingqing District,
Yinchuan, Nixia, PRC (Postal Code: 750001)
Tel: (86) 951 672 1993
Fax: (86) 951 672 1553

KUNMING

9/F, Ruyi Plaza, No.36,
Middle People Road, Kunming,
Yunnan, PRC (Postal Code: 650021)
Tel: (86) 871 364 8720
Fax: (86) 871 364 5939

NANJING

7/F, Hetai International Mansions, No. 128,
Shanxi Road, Nanjing, Jiangsu, PRC
(Postal Code: 210009)
Tel: (86) 025 8372 1886
Fax: (86) 025 8371 6000

HANGZHOU

Room 702, Wangjiang International Center,
Shangcheng District, Hangzhou, Zhejiang, PRC
(Postal Code: 310008)
Tel: (86) 0571 2689 7676
Fax: (86) 0571 2689 7636

MELBOURNE

CITIC House, Level 1, 99 King Street,
Melbourne, Vic, 3000, Australia
Tel: (613) 8613 0000
Fax: (613) 8613 0099

SHENZHEN

10/F, Block A, United Plaza, Binhe Road,
Futian District, Shenzhen,
PRC (Postal Code: 518000)
Tel: (86) 755 8290 0800
Fax: (86) 755 8290 0815

XI'AN

16/F, Block C, Fortune Center, No.180,
Western section of the second ring road,
Xi'an, PRC (Postal Code: 710075)
Tel: (86) 29 8836 4536
Fax: (86) 29 8836 4578

CHANGSHA

7/F, Yun Da Guo Ji Plaza, No.478, Section 1,
Middle Furong Road, Changsha, Hunan,
PRC (Postal Code: 410005)
Tel: (86) 731 8828 5566
Fax: (86) 731 8828 5567

JINAN

6/F Huate Plaza, No.17703 Jingshi Road, Lixia
District, Jinan, PRC (Postal Code: 250012)
Tel: (86) 531 8925 9000
Fax: (86) 531 8925 9099

GUANGZHOU

No. 2503 East Tower, Tianyu Business Plaza,
No. 753 Dongfeng, East Road, Yuexiu District,
Guangzhou, PRC (Postal Code: 510080)
Tel: (86) 020 2281 6856
Fax: (86) 020 2281 6866

URUMUQI

13/F, Hongshan New Century Building, No. 8, Xin
Hua North Road, Urumuqi, Xinjiang, PRC
(Postal Code: 830002)
Tel: (86) 0991 8891 969
Fax: (86) 0991 8890 116

TAIYUAN

Room 1103/1105, Fortune Building, No.98
Southern Inner Ring Street, Taiyuan, Shanxi, PRC
(Postal Code: 030012)
Tel: (86) 0351 7899 187
Fax: (86) 0351 7899 023

JAPAN

2-2-15-402 Hamamatsu Chou, Minato-ku,
Tokyo, 105-0013 Japan
Tel: (81-3) 3436 1188
Fax: (81-50) 3020 3622

This publication intended to provide general information and guidance on the subject concerned. No one should act upon such information without consulting a qualified professional adviser. SHINEWING (HK) CPA Limited takes no responsibility for any errors or omission in, or for the loss incurred by individuals and companies due to the use of, the information of this publication.

No claims, action or legal proceedings in connection with this publication brought by any individuals or companies having reference to the information of this publication will be entertained by SHINEWING (HK) CPA Limited.