

# Amendments to HKFRS 10 and HKAS 28 (2011) – *Sale or contribution of assets between an investor and its joint venture or associate*

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## MAIN FEATURES

- An investing entity is required to recognise the gain or loss arising from selling or contributing assets that constitutes or contains a business to a joint venture or associate in full.
- An investing entity is required to recognise the gain or loss arising from selling or contributing assets that does not constitute or contain a business to a joint venture or associate only to the extent of the unrelated investors' interests in that joint venture or associate.
- The amendments are to be applied prospectively.
- Effective for transactions occurring in annual periods beginning on or after 1 January 2016, with earlier application permitted.

## Background

The International Accounting Standards Board has issued Amendments to International Financial Reporting Standard ("IFRS") 10 and International Accounting Standard ("IAS") 28 (2011) to address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its joint venture or associate.

Subsequently in October 2014, the Hong Kong Institute of Certified Public Accountants also issued the same amendments, Amendments to Hong Kong Financial Reporting Standard ("HKFRS") 10 and Hong Kong Accounting Standard ("HKAS") 28 (2011) – *Sale or contribution of assets between an investor and its joint venture or associate*, so as to maintain the convergence with IFRSs.

## What are the major content of the amendments?

The following table summarised the accounting treatments for each scenario as stated below:

Scenario	Accounting treatments
<ul style="list-style-type: none"> <li>Gains or losses resulting from transactions involving <u>assets that do not constitute a business</u>, as defined in HKFRS 3 (revised) <i>Business Combinations</i>, including "upstream" and "downstream" transactions, contribution of non-monetary assets. <i>(Note i)</i></li> </ul>	<ul style="list-style-type: none"> <li>Any gain or loss is recognised to the extent of the unrelated investors' interests in that joint venture or associate.</li> </ul>
<ul style="list-style-type: none"> <li>Gains or losses resulting from transactions involving <u>assets that constitute a business</u>, as defined in HKFRS 3 (revised) <i>Business Combinations</i>, including "downstream" transactions. <i>(Note i)</i></li> </ul>	<ul style="list-style-type: none"> <li>Any gain or loss is recognised in full.</li> </ul>
<ul style="list-style-type: none"> <li>Gains or losses resulting from the <u>losing control of a subsidiary that does not contain a business</u> as defined in HKFRS 3 (revised) <i>Business Combinations</i>, and as a result of the transaction involving a joint venture or an associate accounted for using equity method. <i>(Note ii)</i></li> </ul>	<ul style="list-style-type: none"> <li>Any gain or loss is recognised to the extent of the unrelated investors' interests in that joint venture or associate.</li> </ul>
<ul style="list-style-type: none"> <li>Gains or losses resulting from the remeasurement at fair value of an investment retained in the former subsidiary and the former subsidiary is now a joint venture or an associate in which it is accounted for using equity method. <i>(Note ii)</i></li> </ul>	<ul style="list-style-type: none"> <li>Any gain or loss is recognised to the extent of the unrelated investors' interests in that joint venture or associate.</li> </ul>
<ul style="list-style-type: none"> <li>Gains or losses resulting from the remeasurement at fair value of an investment retained in the former subsidiary in which it is now accounted for in accordance with HKFRS 9 <i>Financial Instruments</i>.</li> </ul>	<ul style="list-style-type: none"> <li>Any gain or loss is recognised in full.</li> </ul>

Notes:

- (i) When determining whether assets that are sold or contributed constitute a business, as defined in HKFRS 3 (revised), an entity should consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction in accordance with the requirements in paragraph B97 of HKFRS 10 *Consolidated Financial Statements*.
- (ii) The remaining part of gain is eliminated against the carrying amount of the investment in that joint venture or associate.

## **When will these amendments become effective?**

The Amendments to HKFRS 10 and HKAS 28 (2011) will become effective for sale and contribution of assets occurring in annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies these amendments for an earlier period, it should disclose that fact.

An entity shall apply these amendments prospectively.



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