# IASB CLARIFIES ACCOUNTING FOR THE SALE OR CONTRIBUTION OF ASSETS BETWEEN AN INVESTOR AND ITS ASSOCIATE OR JOINT VENTURE

The International Accounting Standards Board (IASB) recently published *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28) which clarifies how we account for transactions where a parent loses control of a subsidiary (**not a 'business' as defined in IFRS 3 *Business Combinations***), by selling all or part of its interest in that subsidiary to an associate or a joint venture that is accounted for using the equity method.

The amendments apply prospectively to annual reporting periods beginning on or after 1 January 2016, and must be applied prospectively and may be adopted early when approved by the Australian Accounting Standards Board.

## Who is likely to be most affected?

The amendments are most likely to impact entities selling down interests in junior explorers as well as property and technology companies.

## Background

The amendment deals with an inconsistency that existed between IAS 27 *Consolidated and Separate Financial Statements*, and SIC 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*.

Under **SIC 13**, when a non-monetary asset was contributed to a jointly controlled entity in exchange for an equity interest in that jointly controlled entity, the amount of the gain or loss recognised was restricted to the extent of the interests of the unrelated investors in the jointly controlled entity.

Under **IAS 27**, on the date when control was lost in the subsidiary, any gains or losses were recognised in full in profit or loss.

The inconsistency remained when IAS 27 and SIC 13 were replaced by IFRS 10 *Consolidated Financial Statements* which means that structuring opportunities remain because the same transaction might be accounted for differently.

## Amendments to IFRS 10 and IAS 28

The IASB decided that when selling:

- **Assets that comprise a 'business' under IFRS 3** – accounting should be consistent with IFRS 3 loss of control provisions and a full gain or loss recognised in profit or loss, regardless of whether the business is housed in a separate subsidiary or not, and
- **Assets that do not comprise a 'business' under IFRS 3** – the partial gain or loss recognition principles for 'downstream' transactions between an investor and its associate or joint venture should apply.

Paragraph B99A has been added to IFRS 10 to clarify that if a parent loses control over a subsidiary that does not comprise a 'business', as a result of a transaction involving an associate or joint venture accounted for using the equity method, this means that:

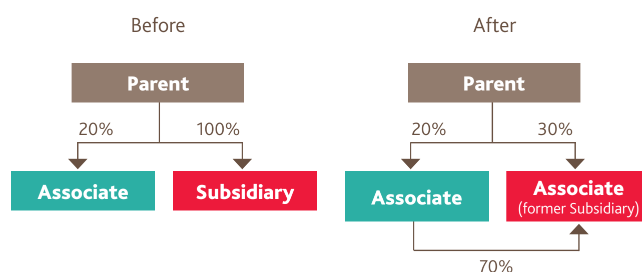
- Firstly, the parent entity determines the full gain or loss from measuring the retained interest in the former subsidiary at fair value, as well as gains or losses to be reclassified from other comprehensive income to profit or loss
- Secondly, these gains or losses are only recognised in profit or loss to the extent of the unrelated investor's interest in that associate or joint venture, and
- Thirdly, the remaining gains or losses are eliminated against the carrying amount of the investment in associate or joint venture.

If the retained interest in the former subsidiary:

- Is itself an associate or joint venture, a similar process applies as described above for partial recognition of gains and losses in profit or loss
- Is accounted for in accordance with IFRS 9 *Financial Instruments*, full gains or losses are recognised in profit or loss.

**Example (extracted from this amending standard – Example 17)**
Parent sells 70% of its share in Subsidiary (does not constitute a business) to its 20% Associate.

Parent therefore loses control of Subsidiary which is now accounted for as an associate using the equity method.

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|---|---|
| Consideration received | $210 |
| Carrying amount of net assets of Subsidiary | $100 |
| Fair value of investment retained in former subsidiary | $90 |
| 30% of carrying amount of net assets of Subsidiary | $30 |
| Gain resulting from re-measurement at fair value | $60 |

In the above case, the gain comprises two components where one part is recognised in profit or loss and the other part is offset with the carrying amount of the investment retained in the former subsidiary:

- **Sale of 70% interest** - $140 gain being the difference between the fair value of the consideration received ($210) and the carrying amount of the interest sold (70% x $100).

  Parent recognises the following:

  – 80% x $140 = $112 → Unrelated investors interest in Associate - recognised in profit or loss
  – 20% x $140 = $28 → Parent share of Associate eliminated against investment in Associate.

- **Gain from re-measuring retained investment at fair value** - $60 gain being the difference between the fair value of the investment retained in the former subsidiary ($90) and 30% of the carrying amount of the assets of the subsidiary ($30, being 30% x $100).

  Parent recognises the following:

  – $60 x (70% x 80% = 56%) = $34 → Recognised in profit or loss
  – $60 x 44% = $26 → Eliminated against investment in Associate.

Eliminating 44% corresponds to the directly held interest of 30%, and the indirectly held interest of 14% (20% x 70%).