Kjøp og salg av lisensandeler etter endringen i IFRS 11

2016 Kristiansand Symposium 13. juni 2016

Agenda

Introduction

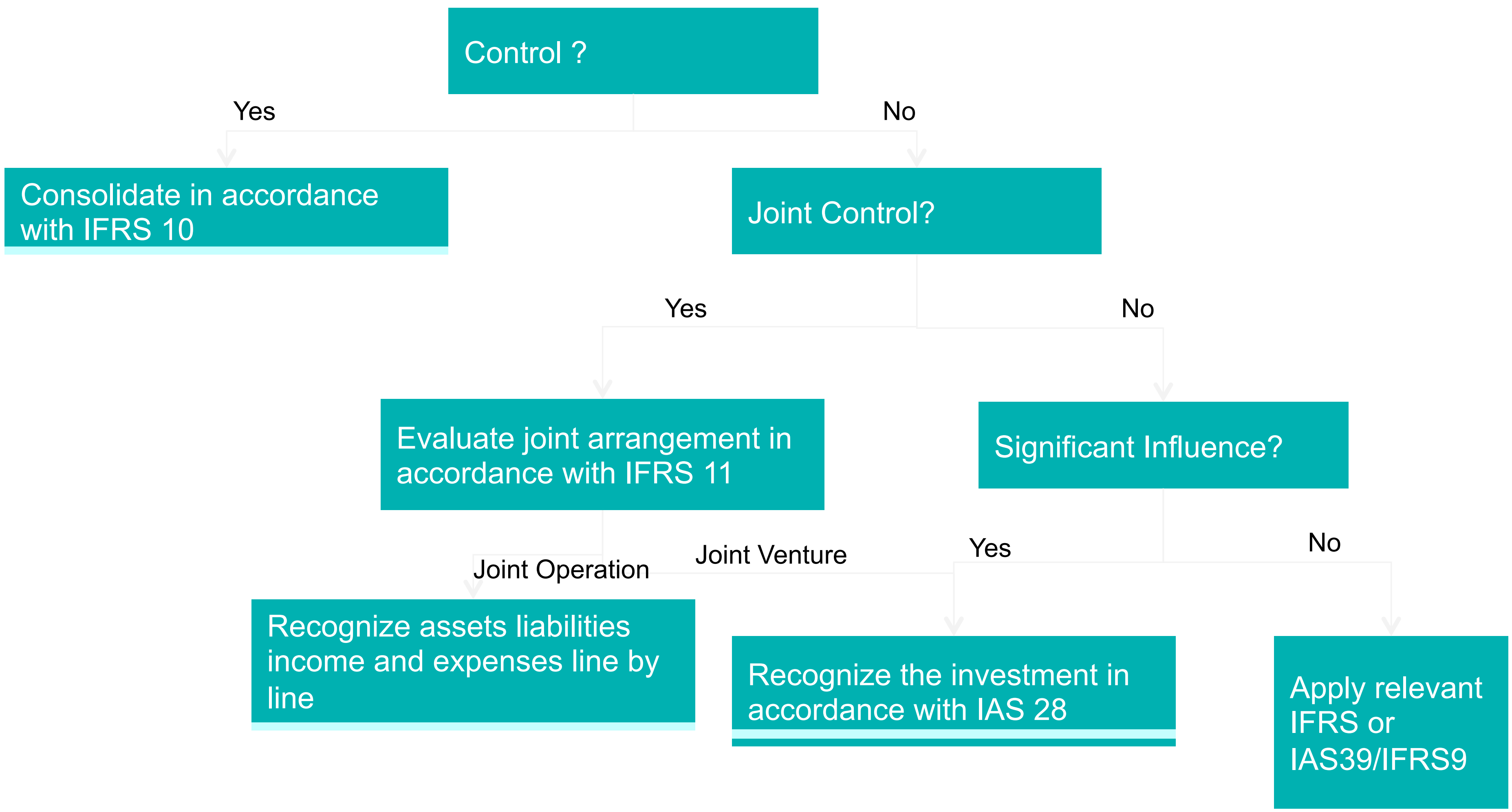
Point 1: Recap what is a joint arrangement, joint operation and joint venture

Point 2: Change of IFRS 11

Point 3: Accounting for acquisitions in a joint operation that constitutes a business

Point 4: Accounting for aquisition of licenses that are outside IFRS 11

Cooperation between IFRS 10, 11 12 and IAS 28



Joint venture vs joint operation

1 Structure	Is the arrangement structured through a vehicle that is separate from the parties?	Y	N → Joint Operation
2 Legal form	Does the legal form of the vehicle give the parties rights to the assets and obligations for the liabilities of the arrangement?	Y → Joint Operation	N
3 Contractual arrangement	Do the contractual arrangements give the parties rights to the assets and obligations for the liabilities of the arrangement?	Y → Joint Operation	N
4 Other facts and circumstances	Do the parties have rights to substantially all the economic benefits of the assets of arrangement? Does the arrangement depend on the parties on a continuous basis for settling its liabilities?	Y → Joint Operation	N → Joint Venture

Joint Operation

Joint Venture

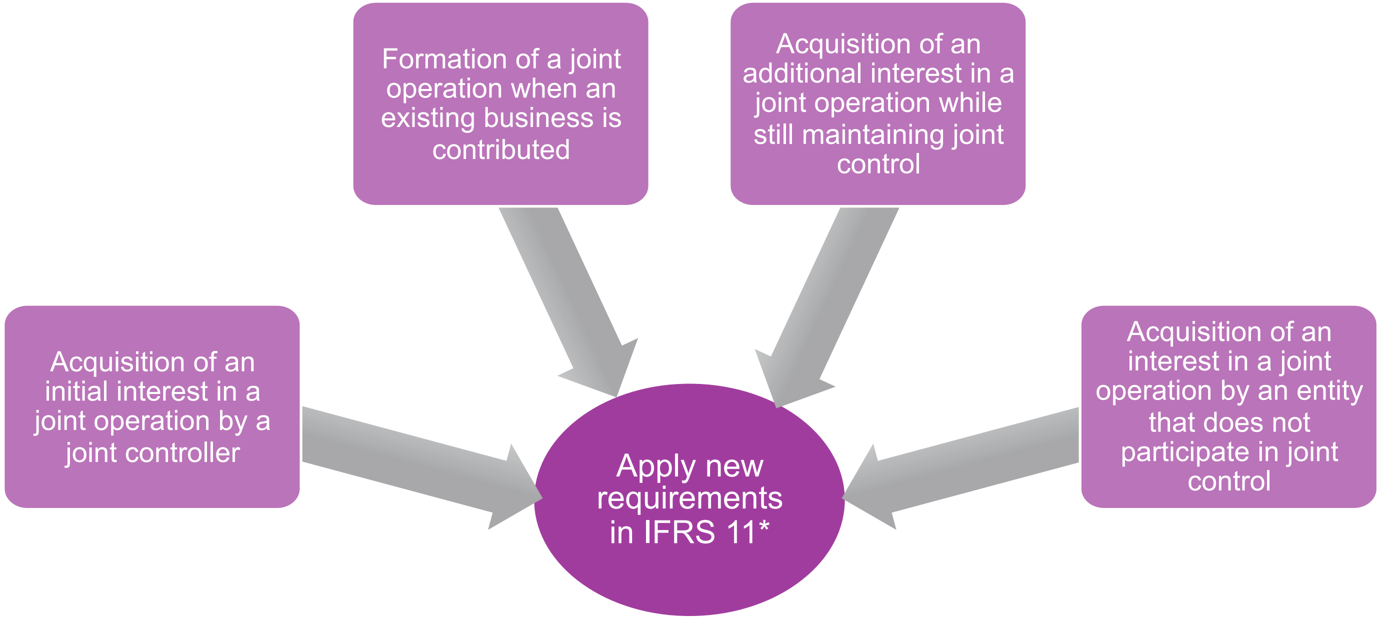
Licenses that are not joint operations

- In practise there has been no difference in the accounting for licenses that are joint operations and licenses that are not joint operations
- The reasoning behind differs, some claim that the solution follows from recognizing a share of related expenses, assets and liabilities using the applicable IFRS's, others apply IFRS 11 in lack of other guidance for these licenses.

Change of IFRS 11

- New paragraph 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 IFRS3 *Business Combinations,* it shall apply, to the extent of its interest according to paragraph 20, the relevant principles on business combinations accounting in IFRS 3 and other IFRSs and disclose the relevant information that is required in those IFRSs for business combinations. The accounting for the acquisition of an interest in such a joint operation is specified in paragraphs B33A-B33B

IFRS 11 – Accounting for acquisitions of interests in a joint operation that constitutes a business



- **New requirements clarify that IFRS 3 (acquisition accounting) should be applied, unless they conflict with the requirements of IFRS 11**

- **Effective prospectively for years beginning on or after Jan 1, 2016 – retrospective application is prohibited**

IFRS 11 – Accounting for acquisitions of interests in a joint operation that constitutes a business

- So given a license within IFRS 11 this means
- Measuring assets and liabilities at fair value
- Expensing of acquisition costs
- Recognizing deferred tax (assets) that arise from the initial recognition of assets and liabilities, except for goodwill
- Excess values to be recognized as goodwill
- Huge impact on the financial statements also due to the high tax rate and tax continuity of assets transferred

IFRS 11 – Accounting for acquisitions of interests in joint operations, cont.

Example 1 – Initial acquisition of an interest in a joint operation through a purchase of assets

Fact pattern

- Entity P acquires a 50% interest in an existing joint operation (JO) through a purchase of a 50% interest in the assets of the JO for cash of 1,100, and incurs transaction costs of 20.
- JO operates a producing oil field and is considered by P to be a business.
- The fair value of the acquired identifiable net assets (i.e. at 50%) is 1,000. The aggregate tax base of the acquired net assets, excluding any eligible capital expenditure amount, is equal to 500. The tax rate is 78%.

Outcome

P records the entries shown.

	DEBIT	CREDIT
Identifiable assets acquired	1,000	
Goodwill (1,100 - 1,000+390)	490	
Cash		1,100
To record acquisition		
Acquisition costs (P&L)	20	
Deferred tax (500 x 78%)		390
Tax income (P&L)		15.6
Cash		20
To record acquisition costs and related tax effect		

IFRS 11 – Accounting for acquisitions of interests in joint operations, cont.

Example 2 – Acquisition of additional interest

Fact pattern

- Five years later, P acquires an additional interest of 10% in JO for cash of 300, but still maintains joint control.
- The fair value of JO's identifiable net assets is 2,500, which includes a fair value uplift of 1,000 on the assets. The tax base of the net assets in JO's financial statements is 1,500. The tax rate is 78%.

Outcome

P records the entries shown.

	DEBIT	CREDIT
Identifiable assets acquired (2,500 x 10%)	250	
Goodwill (300 - (250 - 78))	128	
Deferred tax ((1,000 x 78%) x 10%)		78
Cash		300

Accounting for aquisition of licenses that are outside IFRS 11

- But what if you are outside of IFRS 11?
- It depends
- If you have applied IFRS 11 in lack of other guidance, it is hard to argue not to apply the entire requirements IFRS 11
- Some also argue that you should apply the same accounting method for similar licenses, disregarding whether there is joint control or not
- Others argue that if you apply the applicable IFRS standard for your assets, liabilities and expenses, there is no real need to look for IFRS 11 guidance even if the acquired operation constitutes a business
- So whether you have joint control or not could have a huge impact on your acquisition accounting

Thank you

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