



# IFRS Today

Our series on the most topical issues in IFRS® Standards and financial reporting

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## PODCAST TRANSCRIPT

### M&A – Partnering with others

#### Speakers

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- Tara Smith



Andrea Schriber

ISG Audit Quality Leader –  
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KPMG International Standards Group

#### Andrea

Hello, I'm **Andrea Schriber** and I'm joined today by **Tara Smith**. We work together in KPMG's International Standards Group. Today, we want to talk to you about the accounting impacts of various ways you can partner with another investor.

#### Tara

Hi. That's right, Andrea, and this is a really interesting topic. In our previous two podcasts in the series we spoke about buying a business and selling businesses. But that may just be a step too far for you. You may actually want to do something different to grow your business or to take advantage of the business opportunities that we're facing as we're coming out of the COVID pandemic. Or you may want to deal with the impacts of climate change. All of these may have created new opportunities for you or have forced you to make other changes.

Andrea, what are some of the options?

#### Andrea

Well, one way to do this might be to partner with another investor. You may be looking to bring in financing, specific expertise or a new business venture. We see companies partner with others in different ways. For example, you might want to start up a new business with a partner and run that business together, or you might want to buy into an existing company just so that you have a foot in the door and get a bit of a say. Or you might want to bring in some cash and another investor into your own group.

#### Tara

These are really great examples. These transactions are however very different and do have very different accounting outcomes. But in our experience there is something in common – accounting can be complex and will definitely need careful consideration.



Tara Smith

KPMG global business combinations  
topic team vice-chair

KPMG in South Africa

**“Figuring out what type of transaction you actually have can be tricky. Sometimes it might look like you’re buying a business, but in reality, you are partnering or investing with someone else in a business. It is important from the beginning to understand what kind of a transaction you are entering into because the accounting will be so different.”**

Andrea Schriber  
ISG Audit Quality Leader –  
Financial Services

So today we’re going to talk about which accounting standards you need to apply to some of these different types of transactions, and also what are the accounting considerations in these different types of arrangements. And we’ll be walking through a few scenarios just to illustrate the challenges and differences.

## Andrea

Well, figuring out what type of transaction you actually have can be tricky. Sometimes it might look like you’re buying a business, but in reality, you are partnering or investing with someone else in a business. It is important from the beginning to understand what kind of a transaction you are entering into because the accounting will be so different.

Now, once you’ve established the transaction type, the first question you would ask when thinking about the accounting is: “Which part of the book are you in?” Or, less casually: “Which IFRS standard applies to your transaction?” That is a key question because if you start in the wrong standard, then you will definitely not get the accounting right.

## Tara

Absolutely. So what is it that you’re looking for? Well, the accounting really depends on whether you are jointly controlling something, you’re buying a share in another company or simply bringing in investors by issuing shares of one of your companies. And – guess what? There is an accounting standard for each of them.

## Andrea

That is so right, Tara. So, what are the standards that apply?

If you are investing in a business together with one or more partners and jointly control it, you are accounting for the transaction under IFRS 11 *Joint Arrangements*.

If you are buying into a company without actually controlling or jointly controlling it, then you are in IAS 28 dealing with associates.

And if you are simply bringing in other investors into your group, then you are looking at the guidance about non-controlling shareholders in IFRS 10 on consolidations.

## Tara

So let’s take a closer look at the accounting in each of these standards.

Firstly, if you run a business together with one of more partners, you’re going to be in IFRS 11. In this situation, there’s no one investor that’s actually making the decisions on their own. You all have to agree together and in accounting terms that means you jointly control this arrangement or company.

Once you agree that this is your type of transaction, the next step for you is to decide whether your arrangement is considered to be a joint venture or a joint operation. And the accounting for each of these models is very different.

In reality, it’s a very technical, tricky assessment, but what it really means is that in a joint venture, as the investor, you are only entitled to what comes out at the end – the profits and the remaining equity of the arrangement. So, much like a shareholder, you’re not actually entitled to the underlying assets and liabilities.

But a joint operation is very different. In this situation, you actually do have the rights to each of the assets and liabilities of the arrangement.

## Andrea

That’s right Tara, the two options are joint venture or joint operation. The classification depends on the legal structure, the contractual arrangements and

other considerations, and can be complex. But it's important to consider it at the outset because the accounting for each is very different and your balance sheet will look significantly different.

So, if your transaction ends up being a joint venture, you account for your investment using the equity method. That is: one line in each of your profit or loss and balance sheet. But if you are a joint operation, you actually account for your share of each of the assets and liabilities in every impacted line in your financial statements.

## Tara

Wow – that's actually a fairly significant difference. In the second situation, this is when you're still investing quite a bit of money in another company, but you're not actually controlling it, nor are you jointly controlling it. You may just have an investment in an associate and you're likely to account for this transaction under IAS 28.

An example of this would be where you've invested in 25 percent and you may have a seat or two on the board. And that may just be enough for you. In that case, you really can't control the company, but you actually still get a significant say in its business and therefore you have what IAS 28 calls significant influence, or the power to take part in some of the key decisions of that company.

The accounting for this type of investment follows the equity accounting method which is the same as what you use accounting for joint ventures. That's what you spoke about earlier, Andrea...

## Andrea

Yes, and remember, this is where you include the results of your investment in one line in your profit or loss and balance sheet.

So we've looked at the two situations where you partner with someone. In the third situation you might not be looking at investing but at bringing in other investors for your group. This might be to introduce additional resources or expertise. In that case, you maybe want to sell some of your subsidiary's shares to another investor and bring in cash through that transaction. For example, you might sell 10 percent of your shares in your subsidiary to other investors and you still hold 90 percent and control. If that is your next move, then you are in IFRS 10 – consolidation – in the section that deals with non-controlling interests (NCIs).

NCIs are investors that participate in a specific entity of a group but aren't part of a normal group structure.

## Tara

And your NCIs have a right to share in the subsidiary's profits, losses and net assets, so you're going to need to show that in your consolidated balance sheet and profit or loss. IFRS 10 gives you a choice of accounting policy on how to account for such investors either at fair value or at net asset value and the NCI is then shown as part of equity. This has no impact on the assets and liabilities in your group. Going forward, however, you need to show the percentage of the profit or loss that is owed to the NCI separately from the profit or loss that is yours.

## Andrea

Well, Tara, I think we've covered quite a bit today and it really can be a minefield figuring out what accounting rules apply to your transactions. And specifically how to assess whether you have joint control, or potentially an associate investment, and finally how to deal with any NCI that you bring in.

## Tara

Absolutely, Andrea, and as we said in the beginning, it's really important to think through the accounting implications before your transaction takes place. As we said, the accounting can be complex and you might end up with unexpected charges to the profit or loss or to changes in your group that you really don't want to be dealing with at the last minute.

## Andrea

If you want to learn more, just type KPMG IFRS into your browser. You'll find our previous two podcasts on buying and selling a business and also our climate change financial reporting resource centre and lots and lots of other good stuff.

## Tara

Thanks for listening, everyone!

## Andrea

Thanks a lot – and good luck with your transaction!

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