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Grant Thornton

Technical Accounting Alert

IFRIC 17 Distributions of Non-cash Assets to Owners

Introduction

On 27 November 2008, the International Financial Reporting Interpretations Committee published IFRIC 17 *Distributions of Non-cash Assets to Owners.*

The IFRIC was developed in response to requests for guidance on how to account for distributions of assets other than cash as dividends to owners. Prior to publication of IFRIC 17 IFRS did not contain any guidance on how an entity should measure distributions to owners.

Relevant standards

References are made to standards issued by the International Accounting Standards Board. The Australian equivalent to each standard included in this alert is shown below:

International Standard reference	Australian equivalent standard
IFRIC 17 Distributions of Non-cash Assets to Owners	Interpretation 17 Distributions of Non-cash Assets to Owners
IFRS 3 Business Combinations (revised 2008)	AASB 3 Business Combinations (revised 2008)
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	AASB 5 Non-current Assets Held for Sale and Discontinued Operations
IAS 27 Consolidated and Separate Financial Statements (revised 2008)	AASB 127 Consolidated and Separate Financial Statements (revised 2008)

Overview

Scope of IFRIC 17

IFRIC 17 applies to distributions of non-cash assets by an entity to its owners, and to distributions that give owners a choice of receiving either non-cash assets or a cash alternative.

Examples of non-cash assets are items of property, plant and equipment, businesses, and ownership interests in another entity.

IFRIC 17 does <u>not</u> apply, however, to the distribution of a non-cash asset that is ultimately controlled by the same party or parties before and after the distribution. It does not therefore apply to transfers of businesses within a group by way of dividends. Nor does it apply when an entity distributes some of its ownership interests in a subsidiary but retains control of the subsidiary.

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Issues addressed

IFRIC 17 addresses three issues: (1) When should an entity recognise a dividend payable in respect of a distribution of non-cash assets; (2) how should an entity measure the dividend payable; and (3) how should an entity account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable when the entity settles the dividend payable.

When to recognise a dividend payable

IFRIC 17 states that a liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity.

Where, for example, a dividend has been declared (eg by management or the board of directors) but requires further approval (eg by the shareholders), a liability will not be recognised until that approval has been obtained.

Measurement of a dividend payable

IFRIC 17 requires an entity to measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed.

Where an entity gives its owners a choice of receiving either a non-cash asset or a cash alternative, the entity estimates the dividend payable by considering both the fair value of each alternative and the associated probability of owners selecting each alternative.

Example

The share capital of Company A is divided into two classes; class A shares and class B shares. There are ten Class A shares, which are owned by the original founder shareholders of the Company. In the year ended 31 December 2010, Company A decides to pay a dividend to the Class A shareholders.

Company A decides to give the Class A shareholders a choice between receiving a dividend in cash of $5,000 or in the form of a non-cash asset. The non-cash asset is a standard model of car from the Company's 2007 car fleet. Each such car has a fair value of $6,000.

Company A estimates that 80% of the Class A shareholders will take the option of the cash dividend and 20% will elect for the non-cash asset. Company A will accordingly recognise a dividend payable of $52,000 ((10 x $5,000 x 80%) + (10 x $6,000 x 20%)).

At the end of each reporting period and at the date of settlement, the entity reviews and, if necessary, adjusts the carrying amount of the dividend payable. Any changes in the carrying amount of the dividend payable are recognised in equity as adjustments to the amount of the distribution.

Accounting for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable when the entity settles the dividend payable

IFRIC 17 requires an entity to recognise in profit or loss any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable upon settlement of the dividend payable.

Example

A property development company is owned by three founding shareholders. In the year ended 31 December 2010, it decides that instead of paying a cash dividend to the shareholders, it will distribute to each shareholder a one bedroom flat in a property it has developed by means of a dividend-in-kind. The flats have been recorded in the company's balance sheet at their cost of $100,000 each. Their fair value is however estimated to be $300,000 each.

It declares the dividend and receives shareholder approval for it on 31 December 2010. Accordingly it recognises the dividend by debiting equity $900,000 and crediting liabilities $900,000 (representing the fair value of the dividend).

On 31 January 2011, the entity settles the dividend (assume that the fair value of the flats does not change between the date of declaration of the dividend and the date of its settlement, and that there is therefore no need to adjust the carrying amount of the dividend).

IFRIC 17 requires the total difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable to be recognised in profit or loss upon settlement of the dividend payable. Accordingly the company debits liabilities $900,000 and credits assets $300,000, with the difference of $600,000 being credited to profit or loss.

Presentation and disclosures

IFRIC 17 sets out various requirements relating to presentation and disclosure of distributions of non-cash assets to owners. These include disclosures related to the nature of the asset to be distributed; its carrying amount and the method used to determine fair value where the fair value of the asset to be distributed differs from its carrying amount at the end of the period.

Consequential amendments to IFRS 5

IFRIC 17 makes consequential amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

The amendments state that the classification, presentation and measurement requirements in IFRS 5 also apply to a non-current asset (or disposal group) that is classified as held for distribution to owners.

A non-current asset (or disposal group) is classified as held for distribution to owners when the entity is committed to distribute the asset (or disposal group) to the owners. For this to be the

case, the assets must be available for immediate distribution in their present condition and the distribution must be highly probable.

Effective date

IFRIC 17 must be applied for annual periods beginning on or after 1 July 2009. Retrospective application is not permitted. Earlier application is permitted.

Where an entity applies IFRIC 17 for a period beginning before 1 July 2009, it must apply IFRS 3 Business Combinations (revised 2008) and IAS 27 Consolidated and Separate Financial Statements (revised 2008).

Grant Thornton comment

Overall we consider that the requirements of IFRIC 17 on information on the fair value of non-cash distributions is useful, not least from a stewardship perspective.

While we expressed some concern when the IFRIC was in draft form over the inclusion of any difference between the distribution liability and the carrying amount of the non-cash asset as income in profit or loss upon settlement of the dividend, we believe that IFRIC 17's requirements will reduce diversity in how non-cash distributions are accounted for and improve financial reporting overall. We therefore welcome the publication of this guidance.

Further information

For further information on any of the information included in this TA alert, please contact your local Grant Thornton Australia contact member or a member of the National Audit Support team at NAS@grantthornton.com.au.