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Educational Case

IFRS framework-based case study: Barrick Gold Corporation—Goodwill for Gold

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ABSTRACT

The case of *Barrick Gold Corporation: Goodwill for Gold* utilizes a framework-based approach to examine the objectives, underlying concepts, and relevant IFRS guidance applied to goodwill. The questions presented in the case study progressively lead from the broad concepts underlying the preparation of financial data, in general, to the International Accounting Standards concerning recognition, measurement, and subsequent treatment of goodwill, specifically IFRS 3, IAS 36, and IAS 38. It challenges you to determine if these standards are consistent with the underlying concepts set forth in the IFRS's conceptual *Framework*. This case illustrates the importance of professional judgment in the standard setting process by requiring you to examine the IASB's published supporting documents including the Board's *Basis for Conclusions*. In addition, the case includes a practical application problem that requires you to determine the financial statement effects of the subsequent treatment of goodwill.

1. The case

Barrick Gold Corporation is the largest gold mining corporation in the world. Barrick is a mineral mining and exploration company incorporated in Canada with regional business units in Australia, Africa, North America, and South America. As of 2010, Barrick's portfolio consisted of 26 operating mines and, "advanced exploration and development projects located across five continents, and large land positions on some of the world's most prolific and prospective mineral trends" (Barrick Gold Corporation, 2013). As of December 31, 2010, Barrick reported proven and probable gold reserves of

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approximately 140 million ounces. Additionally, their gold mining interests were reported to contain 6.5 billion pounds of copper reserves and 1.07 billion ounces of silver. In 2011, they acquired an additional 5.7 billion pounds of copper reserves (Barrick, 2013). Barrick is traded on the Toronto Stock Exchange (symbol: ABX) and New York Stock Exchange (symbol: ABX).

Prior to 2010, Barrick owned 50% interest in Cerro Casale. According to Barrick, "Cerro Casale is one of the world's largest undeveloped gold–copper deposits, with gold reserves of 23.2 million ounces" (Barrick, 2013). During the first quarter of 2010, Barrick purchased an additional 25% interest in Cerro Casale resulting in a controlling interest of 75%. Per US Generally Accepted Accounting Principles (GAAP), Barrick classified Cerro Casale as a Variable Interest Entity (VIE). Consequently, with the additional 25% purchase—for 75% total—in 2010, Barrick became "primary beneficiary" of the VIE and selected the consolidation method of accounting. Using US GAAP, Barrick determined that the purchase did not meet the criteria for a business combination. Instead, the transaction was recorded as an acquisition of assets in 2010 when they consolidated 100% of operating results, cash flows and net assets and recorded a non-controlling interest for the 25% not owned by Barrick. Per FASB Accounting Codification Standard (ACS) 80.10.30.3 "[w]hen a reporting entity becomes the primary beneficiary of a VIE that is not a business, no goodwill shall be recognized." Accordingly, the prior equity investment (50%) was transferred to property, plant and equipment (PP&E) in 2010 and $1732M of the purchase price was allocated to PP&E (100% basis, the offsetting non-equity interest is $454M). Excerpts regarding the Cerro Casale consolidation from the *2010 Annual Report* (Barrick Gold Corporation, 2011) are provided in Figs. 1 and 2.

Beginning January 2011, Barrick switched its accounting standards from US GAAP to International Financial Reporting Standards (IFRS). Barrick's (2011) *2010 Annual Report* for year ending December 31, 2010 stated, "this change will bring our basis of reporting in line with the other large international mining companies that already report their results in accordance with IFRS, and therefore the conversion to IFRS will improve the comparability of our financial performance to these companies" (p. 39). The preliminary impact of the conversion to IFRS on the Statement on Income is presented in Fig. 3.

Per IFRS, the Cerro Casale consolidation met the definition of a business combination when it was purchased in 2010 and not a purchase of assets as reported under US GAAP. Applying IFRS 3, the purchase of Cerro Casale was remeasured and recorded as a business combination in the first quarter of 2011, resulting in an $809 million allocation to goodwill as shown in an excerpt from Barrick Gold Corporation's (2012) *2011 Annual Report* (see Fig. 4). Additional disclosures from the *2011 Annual Report* are provided in Figs. 5 and 6.

Ever since the directors of Barrick Gold Corporation approved the adoption of IFRS, they have paid particular attention to the financial statements. One of the reasons that they voted to adopt IFRS was to improve the comparability of their financial reports to other large mining companies that already prepare in accordance to IFRS. During a recent meeting the directors discussed the reconciliations of US GAAP and IFRS disclosed in the *2011 Annual Report* (see Figs. 3 and 5). One Board member remarked, "our goal was to make the financials more comparable to our competitors but the 2011 reports are certainly not more comparable to the 2008, 2009 or 2010 reports."

Another director replied, "the change to IFRS is only confounded by complex transactions such as the Cerro Casale acquisition. Since we have so many potential opportunities in the works, it would probably be in our best interest to be fully briefed on the IFRS standards."

After further discussion about the Cerro Casale acquisition it was agreed that the Board expected a financial impact from the initial adoption of IFRS so they were not necessarily concerned with the technical differences between US GAAP and IFRS. One member pointed out, "I believe that the US GAAP accounting for Cerro Casale was rather complicated anyway because it was classified as a Variable Interest Entity (VIE) and met the criteria for the purchase of assets instead of a business combination. This situation was actually an 'exception' to US GAAP's regulation on business combinations. In fact", he continued, "without this exception, US GAAP and IFRS regulations on business combinations are very similar. Both sets of regulation for business combinations measure for goodwill at the time of acquisition. Since the amortization of goodwill has been a hot topic in the recent past, I am curious to find out if the goodwill from the Cerro Casale acquisition will be amortized under IFRS. This could have a significant impact on our income statement."