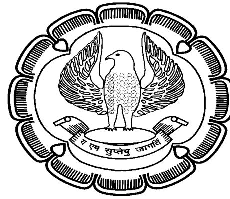
EXPOSURE DRAFT

Accounting Standard for Local Bodies (ASLB) 40

Entity Combinations

(Based on corresponding IPSAS 40)

(Last date of comments: November 15, 2021)



Issued by

The Committee on Public and Government Financial Management

The Institute of Chartered Accountants of India

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Exposure Draft ASLB 40—Entity Combinations

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Exposure Draft

Accounting Standard for Local Bodies (ASLB) 40

Entity Combinations

INVITATION TO COMMENT

The Committee on Public and Government Financial Management of the Institute of Chartered Accountants of India invites comments on any aspect of this Exposure Draft of the Accounting Standard for Local Bodies (ASLB) 40, 'Entity Combinations'. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

*Comments should be submitted in writing to the Secretary, Committee on Public and Government Financial Management, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002, so as to be received not later than **November 15, 2021** Comments can also be sent by e-mail at caslb@icai.in and cpf.aslb@icai.in*

Exposure Draft
Accounting Standard for Local Bodies (ASLB) 40
Entity Combinations

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies[1])*

The Accounting Standard for Local Bodies (ASLB) 40, *'Entity Combinations'*, issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the local bodies. This

[1] Attention is specifically drawn to paragraph 4.2 of the *'Preface to the Accounting Standards for Local Bodies',* according to which Accounting Standards are intended to apply only to items which are material.

Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standard for Local Bodies:

Objective

1. The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about an entity combination and its effects. To accomplish that, this Standard establishes principles and requirements for how:

    (a) A reporting entity classifies an entity combination as an amalgamation or an acquisition;

    (b) A resulting entity recognises and measures in its financial statements the identifiable assets received, the liabilities assumed and any non-controlling interest in an amalgamation;

    (c) A resulting entity recognises and measures components of net assets/ equity and other adjustments recognised in an amalgamation;

    (d) An acquirer recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired operation;

    (e) An acquirer recognises and measures the goodwill acquired in, or the gain or loss arising from, an acquisition; and

    (f) A reporting entity determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of an entity combination.

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[2] In respect of compliance with the Accounting Standards for Local Bodies, reference may be made to the paragraph 7.1 of the *'Preface to the Accounting Standards for Local Bodies'*.

Scope

2. ***An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for entity combinations.***

2A. ***This Standard applies to all entities described as Local Bodies in the 'Preface to the Accounting Standards for Local Bodies'[3].***

3. ***This Standard applies to a transaction or other event that meets the definition of an entity combination. This Standard does not apply to:***

   (a) ***The accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.***

   (b) ***The acquisition or receipt of an asset or a group of assets (and any related liabilities) that does not constitute an operation. In such cases an entity should identify and recognise the individual identifiable assets acquired or received (including those assets that meet the definition of, and recognition criteria for, intangible assets in ASLB 31, 'Intangible Assets') and liabilities assumed. Such a transaction or event does not give rise to goodwill.***

   (c) ***The assumption of a liability or a group of liabilities that does not constitute an operation. In such cases an entity should identify and recognise the individual liabilities assumed.***

4. ***The requirements of this Standard do not apply to the acquisition by an investment entity, as defined in Appendix C to ASLB 35, 'Consolidated Financial Statements'[4], of an investment in a controlled entity that is required to be measured at fair value through surplus or deficit.***

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[3] Refer paragraph 1.3 of the '*Preface to the Accounting Standards for Local Bodies*'.
[4] ASLB 35 is under formulation.

Definitions

5. ***The following terms are used in this Standard with the meanings specified:***

An entity <u>combination</u> is the bringing together of separate operations into one entity.

General Definitions Related to All Entity Combinations

For the purposes of this Standard, <u>equity interests</u> is used broadly to mean ownership interests of investor-owned entities.

An asset is <u>identifiable</u> if it either:

(a) Is separable, i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related binding arrangement, identifiable asset or liability, regardless of whether the entity intends to do so; or

(b) Arises from binding arrangements (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

An <u>operation</u> is an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purpose of achieving an entity's objectives, by providing goods and/or services.

For the purposes of this Standard, <u>owners</u> is used broadly to include any party with quantifiable ownership interests in an operation. This includes, but is not limited to, holders of equity interests of investor-owned entities.

An <u>entity combination under common control</u> is an entity combination in which all of the entities or operations involved are

ultimately controlled by the same entity both before and after the entity combination.

Definitions Related to Amalgamations

An amalgamation gives rise to a resulting entity and is either:

(a) ***An entity combination in which no party to the combination gains control of one or more operations; or***

(b) ***An entity combination in which one party to the combination gains control of one or more operations, and in which there is evidence that the combination has the economic substance of an amalgamation.***

(Paragraph AG1 provides additional guidance.)

The amalgamation date is the date on which the resulting entity obtains control of the combining operations.

A combining operation is an operation that combines with one or more other operations to form the resulting entity in an amalgamation.

A resulting entity is the entity that is the result of two or more operations combining in an amalgamation (paragraph AG1 provides additional guidance).

Definitions Relating to Acquisitions

An acquired operation is the operation that the acquirer gains control of in an acquisition.

An acquirer is the entity that gains control of one or more operations in an acquisition.

An acquisition is an entity combination in which one party to the combination gains control of one or more operations, and there is evidence that the combination is not an amalgamation.

The acquisition date is the date on which the acquirer gains control of the acquired operation.

***Contingent consideration** is usually an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquired operation as part of the exchange for control of the acquired operation if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.*

***Goodwill** is an asset representing the future economic benefits arising from other assets acquired in an acquisition that are not individually identified and separately recognised.*

Terms defined in other ASLBs are used in this Standard with the same meaning as in those Standards.

Identifying an Entity Combination

6. ***An entity should determine whether a transaction or other event is an entity combination by applying the definitions in this Standard, which requires that the assets and liabilities constitute an operation. If the assets and liabilities do not constitute an operation, the entity should account for the transaction or other event in accordance with other ASLBs. Paragraphs AG2–AG9 provide guidance on identifying an entity combination.***

Classification of Entity Combinations

7. ***If no party to an entity combination gains control of one or more operations as a result of the combination, the combination should be classified as an amalgamation. Paragraphs AG10–AG18 provide guidance on determining whether one party to an entity combination gains control of one or more operations as a result of that combination.***

8. ***If one party to an entity combination gains control of one or more operations as a result of the combination, an entity should consider the economic substance of the combination in classifying the combination as either an amalgamation or an acquisition. A combination in which one party gains control of one or more operations should be classified as an***

acquisition, unless it has the economic substance of an amalgamation.

9. ***In determining the classification of the entity combination, an entity considers whether the resulting accounting treatment of the combination provides information that meets the objectives of financial reporting and that satisfies the qualitative characteristics (QCs). To assess the economic substance of the combination, an entity considers the indicators relating to consideration and to the decision-making process in paragraphs 12–13. These indicators, individually or in combination, will usually provide evidence that the economic substance of the combination is that of an amalgamation. A combination does not need to satisfy both of these indicators to be classified as an amalgamation. Paragraphs AG19–AG39 provide additional guidance.***

10. An analysis of the indicators relating to consideration and to the decision- making process in paragraphs 12–13 will usually produce a conclusive result and provide sufficient evidence about the economic substance of the entity combination to determine whether the combination is an amalgamation. In such circumstances, the resulting classification and the associated accounting treatment will ensure that users have access to information that meets the objectives of financial reporting and that satisfies the QCs.

11. In exceptional circumstances, after applying the indicators in paragraphs 12–13, the results may be inconclusive or may not provide sufficient evidence about the economic substance of the entity combination. In such circumstances, an entity also considers which classification would provide information that best meets the objectives of financial reporting and that best satisfies the QCs, having regard to paragraph 14. Paragraphs AG40–AG41 provide additional guidance.

Indicators that May Provide Evidence that the Combination is an Amalgamation

Indicators Relating to Consideration

12. The following indicators may provide evidence that the combination is an amalgamation:

(a) Consideration is paid for reasons other than to compensate those with an entitlement to the net assets of a transferred operation for giving up that entitlement (paragraphs AG27–AG28 provide additional guidance);

(b) Consideration is not paid to those with an entitlement to the net assets of a transferred operation (paragraphs AG29–AG30 provide additional guidance); or

(c) Consideration is not paid because there is no-one (whether an individual or an entity) with an entitlement to the net assets of a transferred entity (paragraph AG31 provides additional guidance).

Indicators Relating to the Decision-Making Process

13. The following indicators may provide evidence that the combination is an amalgamation:

(a) An entity combination is imposed by a third party without any party to the combination being involved in the decision-making process (paragraphs AG32–AG35 provide additional guidance);

(b) [Refer to Appendix 1]; or

(c) An entity combination under common control occurs (paragraphs AG37–AG39 provide additional guidance).

Additional matters to be taken into account where the indicators relating to consideration and the decision-making process do not provide sufficient evidence to determine whether the combination is an amalgamation

14. The analysis of the indicators relating to consideration and the decision-making process may, in exceptional circumstances, produce inconclusive results or not provide sufficient evidence to determine whether the combination is an amalgamation, based on the economic substance of the entity combination and the indicators in paragraphs 12–13. In such circumstances, an entity considers which classification and resulting accounting treatment would provide information that best meets the objectives of financial reporting. Paragraphs AG42–AG46

provide additional guidance. An entity also considers which classification and resulting accounting treatment would provide information that best satisfies the QCs of relevance, faithful representation, understandability, timeliness, comparability and verifiability. Paragraphs AG47–AG50 provide additional guidance.

Accounting for Amalgamations

15. A resulting entity should account for each amalgamation by applying the modified pooling of interests method of accounting.

The Modified Pooling of Interests Method of Accounting

16. Applying the modified pooling of interests method of accounting requires:

    (a) Identifying the resulting entity;

    (b) Determining the amalgamation date;

    (c) Recognising and measuring the identifiable assets received, the liabilities assumed and any non-controlling interest in the combining operations, consistent with the requirements in ASLBs; and

    (d) Recognising and measuring the components of net assets/equity and other adjustments from an amalgamation.

Identifying the Resulting Entity

17. For each amalgamation, a resulting entity should be identified.

18. Paragraph 5 of this Standard defines a resulting entity as "the entity that is the result of two or more operations combining in an amalgamation." The resulting entity should thereafter be identified as the entity that obtains control of the combining operations as a result of the amalgamation.

Determining the Amalgamation Date

19. The resulting entity should identify the amalgamation date, which is the date on which it obtains control of the combining operations.

20. The date on which the resulting entity obtains control of the combining operations may be the date on which the resulting entity receives the assets and assumes the liabilities of the combining operations. It is possible that the resulting entity will not receive legal title to the assets or assume legal responsibility for the liabilities of the combining operations. In these circumstances, the resulting entity will often obtain control of the assets and liabilities of the combining operations on the date on which responsibility for the assets and liabilities is formally delegated to the resulting entity. However, the resulting entity might obtain control on a different date. For example, legislation or a written agreement may provide that the resulting entity obtains control of the assets and liabilities of the combining operations on a specified date. A resulting entity should consider all pertinent facts and circumstances in identifying the amalgamation date.

Recognising and Measuring the Identifiable Assets, Liabilities Assumed and any Non-Controlling Interests in the Combining Operations

Recognition Principle

21. As of the amalgamation date, the resulting entity should recognise the identifiable assets, liabilities and any non-controlling interests that are recognised in the financial statements of the combining operations as of the amalgamation date. Recognition of identifiable assets and liabilities received is subject to the conditions specified in paragraphs 22–23.

Recognition Conditions

22. The effects of all transactions between the combining operations are eliminated in preparing the financial statements of the resulting entity (paragraphs AG51–AG52 provide related application guidance).

23. To qualify for recognition as part of applying the modified pooling of interests method, the identifiable assets and liabilities must meet the definitions of assets and liabilities in the '*Conceptual Framework for General Purpose Financial Reporting by Local Bodies*' at the amalgamation date. For example, costs that the

resulting entity expects, but is not obliged, to incur in the future to effect its plan to exit an activity of a combining operation or to terminate the employment of or relocate a combining operation's employees are not liabilities at the amalgamation date. Therefore, the resulting entity does not recognise those costs as part of applying the modified pooling of interests method. Instead, the resulting entity recognises those costs in its post-combination financial statements in accordance with other ASLBs.

Classifying or Designating Assets and Liabilities in an Amalgamation

24. At the amalgamation date, the resulting entity should classify or designate the assets and liabilities received in an amalgamation using the classifications or designations previously applied by the combining operations. A resulting entity should not adopt different classifications or designations on initial recognition, even if this is permitted by other ASLBs.

25. In some situations, ASLBs provide for different accounting depending on how an entity classifies or designates a particular asset or liability. In that case, the resulting entity should make the classifications or designations on the basis of the classifications or designations previously applied by the combining operations. For example:

   (a) Classification of particular financial assets and liabilities and their measurement thereof in accordance with Guidance on '*Financial Instruments*'[5]

   (b)-(c) [Refer to Appendix 1].

Measurement Principle

26. The resulting entity should measure the identifiable assets and liabilities of the combining operations at their carrying amounts in the financial statements of the combining operations as of the amalgamation date, subject to the requirements of paragraph 27 (paragraphs AG53–AG54 provide related application guidance).

[5] Guidance on 'Financial Instruments' yet to be formulated/issued, till then guidance may be obtained from other corresponding pronouncements as per the hierarchy prescribed in paragraph 15 of the ASLB 3, '*Accounting Policies, Changes in Accounting Estimates and Errors*'.

27. ***As of the amalgamation date, the resulting entity should adjust the carrying amounts of the identifiable assets and liabilities of the combining operations where required to conform to the resulting entity's accounting policies.***

28. The modified pooling of interests method results in a single combined resulting entity. A single uniform set of accounting policies, consistent with the requirements of ASLBs, is adopted by that entity, and the carrying amounts of the identifiable assets and liabilities of the combining operations are adjusted, where required, to conform to those accounting policies.

29. The resulting entity should measure any non-controlling interests in a combining operation at their carrying amounts in the financial statements of that combining operation as of the amalgamation date, adjusted for the non-controlling interests' proportionate share of the adjustments made in accordance with paragraph 27.

30. Paragraphs 33–35 specify the types of identifiable assets and liabilities that include items for which this Standard provides limited exceptions to the measurement principle.

Exceptions to the Recognition or Measurement Principles

31. This Standard provides limited exceptions to its recognition and measurement principles. Paragraphs 32–35 specify both the particular items for which exceptions are provided and the nature of those exceptions. The resulting entity should account for those items by applying the requirements in paragraphs 32–35, which will result in some items being:

    (a) Recognised either by applying recognition conditions in addition to those in paragraphs 22–23 or by applying the requirements of other ASLBs, with results that differ from applying the recognition principle and conditions.

    (b) Measured at an amount other than their amalgamation date carrying amounts.

Exception to the Recognition Principle

Licenses and similar rights previously granted by one combining operation to another combining operation

32. A license or similar right, previously granted by one combining operation to another combining operation and recognised as an intangible asset by the recipient combining operation should be recognised by the resulting entity as an intangible asset. The license or similar right should not be eliminated in accordance with paragraph 22 (paragraphs AG55–AG56 provide related application guidance).

Exceptions to Both the Recognition and Measurement Principles

Income Taxes (Where Included in the Terms of the Amalgamation)

33. [Refer to Appendix 1]

34. The resulting entity should recognise and measure any remaining taxation items included in or arising from an amalgamation[6].

Employee Benefits

35. The resulting entity should recognise and measure a liability (or asset, if any) related to the combining operation's employee benefit arrangements in accordance with ASLB 39, '*Employee Benefits*'.

Recognising and Measuring Components of Net Assets/Equity Arising as a Result of an Amalgamation

36. An amalgamation does not give rise to goodwill (paragraphs AG59–AG60 provide related application guidance).

37. The resulting entity should recognise within net assets/equity amounts equal and opposite to the following items:

- (a) ***The carrying amounts of the combining operations' assets;***
- (b) ***The carrying amounts of the combining operations' liabilities; and***
- (c) ***The carrying amounts of the combining operations' non-controlling interests.***

38. The resulting entity should recognise within net assets/equity

[6] The guidance with regard to income taxes may be obtained from other corresponding pronouncements as per the hierarchy prescribed in paragraph 15 of the ASLB 3, '*Accounting Policies, Changes in Accounting Estimates, and Errors*'.

the corresponding adjustments in respect of:

(a) ***The elimination of transactions between combining operations in accordance with paragraph 22;***

(b) ***Adjustments made to the carrying amounts of the identifiable assets and liabilities of the combining operations where required to conform to the resulting entity's accounting policies, in accordance with paragraph 27; and***

(c) ***Adjustments made in respect of the exceptions to the recognition and/or measurement principles, in accordance with paragraphs 32–35.***

39. The resulting entity may present the amounts recognised within net assets/equity in accordance with paragraphs 37 and 38 as either:

(a) ***A single opening balance; or***

(b) ***As separate components of net assets/equity.***

Measurement Period

40. If the initial accounting for an amalgamation is incomplete by the end of the reporting period in which the amalgamation occurs, the resulting entity should report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the resulting entity should retrospectively adjust the provisional amounts recognised at the amalgamation date to reflect new information obtained about facts and circumstances that existed as of the amalgamation date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the resulting entity should also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the amalgamation date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the resulting entity receives the information it was seeking about facts and circumstances that existed as of the amalgamation date or learns that more

information is not obtainable. However, the measurement period should not exceed one year from the amalgamation date.

41. The measurement period is the period after the amalgamation date during which the resulting entity may adjust the provisional amounts recognised for an amalgamation. The measurement period provides the resulting entity with a reasonable time to obtain the information necessary to identify and measure the identifiable assets, liabilities and any non-controlling interest in the combining operations as of the amalgamation date in accordance with the requirements of this Standard. The information necessary to identify and measure the identifiable assets, liabilities and any non-controlling interest in the combining operations will generally be available at the amalgamation date. However, this may not be the case where combining operations have previously prepared their financial statements using different accounting policies.

42. The resulting entity recognises an increase (decrease) in the provisional amount recognised for an identifiable asset (liability) by adjusting components of net assets/equity recognised in accordance with paragraphs 37–38. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability. For example, the resulting entity might have assumed a liability to pay damages related to an accident in one of the combining operation's facilities, part or all of which are covered by the combining operation's liability insurance policy. If the resulting entity obtains new information during the measurement period about the carrying amount of that liability, the adjustment to the gain or loss resulting from a change to the provisional amount recognised for the liability would be offset (in whole or in part) by a corresponding adjustment to the gain or loss resulting from a change to the provisional amount recognised for the claim receivable from the insurer.

43. During the measurement period, the resulting entity should recognise adjustments to the provisional amounts as if the accounting for the amalgamation had been completed at the amalgamation date. Thus, the resulting entity should revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation

or amortisation recognised in completing the initial accounting.

44. After the measurement period ends, the resulting entity should revise the accounting for an amalgamation only to correct an error in accordance with ASLB 3, '*Accounting Policies, Changes in Accounting Estimates and Errors*'.

Amalgamation-Related Costs

45. Amalgamation-related costs are costs the resulting entity or combining operations incur to effect an amalgamation. Those costs include advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs; and any costs of registering and issuing debt and equity securities. The resulting entity and combining operations should account for amalgamation-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities should be recognised in accordance with Guidance on '*Financial Instruments*'.

Subsequent Measurement and Accounting

46. In general, a resulting entity should subsequently measure and account for assets and liabilities received and equity instruments issued in an amalgamation in accordance with other applicable ASLBs for those items, depending on their nature. However, this Standard provides guidance on subsequently measuring and accounting for the following assets received and liabilities assumed or incurred in an amalgamation:

    (a) Licenses and similar rights previously granted by one combining operation to another combining operation;

    (b) Transfers, concessionary loans and similar benefits received by a combining operation on the basis of criteria that change as a result of an amalgamation; and

    (c) Income taxes (where not included in the terms of the amalgamation).

Licenses and Similar Rights Previously Granted by One Combining Operation to Another Combining Operation

47. A license or similar right, previously granted by one combining operation to another combining operation and recognised as an intangible asset should be amortised over the remaining period of the binding arrangement in which the right was granted. As per the requirement of ASLB 31, '*Intangible Assets*', it is presumed that the life of an intangible asset will not exceed ten years. The resulting entity should test the right for impairment whenever there is an indication that the right may be impaired. A resulting entity that subsequently sells this license or similar right to a third party should include the carrying amount of the intangible asset in determining the gain or loss on the sale.

Transfers, Concessionary Loans and Similar Benefits Received by a Combining Operation on the Basis of Criteria that May Change as a Result of an Amalgamation

48. A transfer, concessionary loan or similar benefit, previously received by a combining operation on the basis of criteria that change as a result of an amalgamation, should be reassessed prospectively in accordance with other ASLBs (paragraphs AG61–AG63 provide related application guidance).

49. [Refer to Appendix 1].

Presentation of Financial Statements

50. ***Except where a resulting entity is not a new entity following an entity combination, the resulting entity's first set of financial statements following the amalgamation should comprise:***

a) An opening balance sheet as of the amalgamation date;

b) A balance sheet as at the reporting date;

c) A statement of income and expenditure for the period from the amalgamation date to the reporting date;

d) [Refer to Appendix 1];

e) A cash flow statement for the period from the amalgamation date to the reporting date;

f) ***If the entity makes publicly available its approved budget, a comparison of budget and actual amounts for the period from the amalgamation date to the reporting date, either as a separate additional financial statement or as a budget column in the financial statements; and***

g) ***Notes, comprising a summary of significant accounting policies and other explanatory notes.***

51. ***Where a resulting entity is not a new entity following an entity combination, the resulting entity should disclose:***

a) ***The amounts recognised of each major class of assets and liabilities, and components of net assets/equity from combining operations included in the resulting entity;***

b) ***Any adjustments made to components of net assets/equity where required to conform the accounting policies of the combining operations with those of the resulting entity; and***

c) ***Any adjustments made to eliminate transactions between the combining operations.***

52. Subject to the requirements in paragraphs 54 and 56, the resulting entity is permitted but not required to present financial statements for periods prior to the amalgamation date (paragraphs AG64–AG65 provide related application guidance). Where a resulting entity elects to present financial statements for periods prior to the amalgamation date, it should disclose the information required by paragraph 54(g).

Disclosures

53. ***The resulting entity should disclose information that enables users of its financial statements to evaluate the nature and financial effect of an amalgamation.***

54. To meet the objective in paragraph 53, the resulting entity should disclose the following information for each amalgamation that occurs during the reporting period:

(a) The name and a description of each combining operation.

(b) The amalgamation date.

(c) The primary reasons for the amalgamation including, where applicable, the legal basis for the amalgamation.

(d) The amounts recognised as of the amalgamation date for each major class of assets and liabilities transferred.

(e) The adjustments made to the carrying amounts of assets and liabilities recorded by each combining operation as of the amalgamation date:

i. To eliminate the effect of transactions between combining operations in accordance with paragraph 22; and

ii. To conform to the resulting entity's accounting policies in accordance with paragraph 27.

(f) An analysis of net assets/equity, including any components that are presented separately, and any significant adjustments such as revaluation surpluses or deficits, recognised in accordance with paragraphs 37–38.

(g) If a resulting entity elects to present financial statements for periods prior to the amalgamation date in accordance with paragraph 52, the resulting entity should disclose the following information for each combining operation:

i. A balance sheet as at the end of the prior period(s);

ii. A statement of income and expenditure for the prior period(s);

iii. [Refer to Appendix 1];

iv. A cash flow statement for the prior period(s); and

v. Notes, comprising a summary of significant accounting policies and other explanatory notes.

The resulting entity should not restate this information, but should disclose the information on the same basis as used in the combining operations' financial statements. The resulting entity should disclose the basis on which this information is presented.

(h) If, at the time the financial statements of the resulting entity are authorised for issue, the last reporting date of any of the

combining operations does not immediately precede the amalgamation date, the resulting entity should disclose the following information:

i. The amounts of revenue and expense, and the surplus or deficit of each combining operation from the last reporting date of the combining operations until the amalgamation date. The amounts of revenue should be analysed in a manner appropriate to the entity's operations, in accordance with paragraph 108 of ASLB 1, '*Presentation of Financial Statements'*. The amounts of expense should be analysed using a classification based on the nature of expenses in accordance with paragraph 109 of ASLB 1.

ii. The amounts reported by each combining operation immediately prior to the amalgamation date for each major class of assets and liabilities.

iii. The amounts reported by each combining operation immediately prior to the amalgamation date in net assets/equity.

The resulting entity is not required to disclose this information where it has elected to present financial statements for periods prior to the amalgamation date as specified in sub-paragraph (g) above.

55. ***The resulting entity should disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognised in the current reporting period that relate to amalgamations that occurred in the period or previous reporting periods.***

56. To meet the objective in paragraph 55, the resulting entity should disclose the following information:

(a) If the initial accounting for an amalgamation is incomplete (see paragraph 40) for particular assets or liabilities, and the amounts recognised in the financial statements for the amalgamation thus have been determined only provisionally:

i. The reasons why the initial accounting for the amalgamation is incomplete;

ii. The assets or liabilities for which the initial accounting is incomplete; and

iii. The nature and amount of any measurement period adjustments recognised during the reporting period in accordance with paragraph 43.

(b) [Refer to Appendix 1]

57. If the specific disclosures required by this and other ASLBs do not meet the objectives set out in paragraphs 53 and 55, the resulting entity should disclose whatever additional information is necessary to meet those objectives.

Accounting for Acquisitions

58. ***An acquirer should account for each acquisition by applying the acquisition method of accounting.***

The Acquisition Method of Accounting

59. Applying the acquisition method of accounting requires:

(a) Identifying the acquirer;

(b) Determining the acquisition date;

(c) Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired operation; and

(d) Recognising and measuring goodwill, a gain or a loss from an acquisition.

Identifying the Acquirer

60. ***For each acquisition, the party to the combination that gains control of one or more operations should be identified as the acquirer.***

61. The party to the combination that gains control of one or more operations is identified when determining the classification of the entity combination in accordance with paragraphs 7, 8 and AG10–

AG18.

Determining the Acquisition Date

62. ***The acquirer should identify the acquisition date, which is the date on which it obtains control of the acquired operation.***

63. The date on which the acquirer obtains control of the acquired operation is generally the date on which the acquirer legally transfers the consideration and/or acquires the assets and assumes the liabilities of the acquired operation—the closing date. However, the acquirer might obtain control on a date that is either earlier or later than the closing date. For example, the acquisition date precedes the closing date if a written agreement provides that the acquirer obtains control of the acquired operation on a date before the closing date. An acquirer should consider all pertinent facts and circumstances in identifying the acquisition date.

Recognising and Measuring the Identifiable Assets Acquired, the Liabilities Assumed and any Non-Controlling Interest in the Acquired Operation

Recognition Principle

64. ***As of the acquisition date, the acquirer should recognise, separately from any goodwill recognised, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired operation. Recognition of identifiable assets acquired and liabilities assumed is subject to the conditions specified in paragraphs 65 and 66.***

Recognition Conditions

65. To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the *Conceptual Framework for General Purpose Financial Reporting by Local Bodies* at the acquisition date, and be capable of being measured in a way that achieves the qualitative characteristics and takes account of constraints on information in general purpose financial reporting. For example, costs the acquirer expects but is not obliged to incur in the future to effect its plan to exit an activity of an acquired operation or to terminate the employment of or relocate an acquired

operation's employees are not liabilities at the acquisition date. Therefore, the acquirer does not recognise those costs as part of applying the acquisition method. Instead, the acquirer recognises those costs in its post-combination financial statements in accordance with other ASLBs.

66. In addition, to qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must be part of what the acquirer and the acquired operation (or its former owners) exchanged in the acquisition transaction rather than the result of separate transactions. The acquirer should apply the guidance in paragraphs 109–111 to determine which assets acquired or liabilities assumed are part of the exchange for the acquired operation and which, if any, are the result of separate transactions to be accounted for in accordance with their nature and the applicable ASLBs.

67. The acquirer's application of the recognition principle and conditions may result in recognising some assets and liabilities that the acquired operation had not previously recognised as assets and liabilities in its financial statements. For example, the acquirer recognises the acquired identifiable intangible assets, such as patent, that the acquired operation did not recognise as assets in its financial statements because it developed them internally and charged the related costs to expense.

68. Paragraphs AG72–AG84 provide guidance on recognising operating leases and intangible assets. Paragraphs 76–82 specify the types of identifiable assets and liabilities that include items for which this Standard provides limited exceptions to the recognition principle and conditions.

Classifying or Designating Identifiable Assets Acquired and Liabilities Assumed in an Acquisition

69. ***At the acquisition date, the acquirer should classify or designate the identifiable assets acquired and liabilities assumed as necessary to subsequently apply other ASLBs. The acquirer should make those classifications or***

designations on the basis of the terms of the binding arrangement (including contractual terms), economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the acquisition date.

70. In some situations, ASLBs provide for different accounting depending on how an entity classifies or designates a particular asset or liability. The acquirer should make the classifications or designations on the basis of the pertinent conditions as they exist at the acquisition date. For example:

    (a) Classification of particular financial assets and liabilities and their measurement thereof in accordance with Guidance on '*Financial Instruments*';

    (b)-(c) [Refer to Appendix 1].

71. This Standard provides following exception to the principle in paragraph 69 in case of:

    (a) Classification of a lease arrangement as either an operating lease or a finance lease in accordance with ASLB 13, '*Leases'*.

    (b) Classification of a contract as an insurance contract[7].

    The acquirer should classify those binding arrangements on the basis of the terms and other factors at the inception of the binding arrangement (or, if the terms of the binding arrangement have been modified in a manner that would change its classification, at the date of that modification, which might be the acquisition date).

Measurement Principle

72. ***The acquirer should measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.***

73. For each acquisition, the acquirer should measure at the acquisition

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[7] The guidance with regard to insurance contacts may be obtained from other corresponding pronouncements as per the hierarchy prescribed in paragraph 15 of the ASLB 3, *'Accounting Policies, Changes in Accounting Estimates, and Errors'.*

date components of non-controlling interests in the acquired operation that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either:

(a) Fair value; or

(b) The present ownership instruments' proportionate share in the recognised amounts of the acquired operation's identifiable net assets.

All other components of non-controlling interests should be measured at their acquisition-date fair values, unless another measurement basis is required by ASLBs.

74. Paragraphs 78–84 specify the types of identifiable assets and liabilities that include items for which this Standard provides limited exceptions to the measurement principle.

Exceptions to the Recognition or Measurement Principles

75. This Standard provides limited exceptions to its recognition and measurement principles. Paragraphs 76–84 specify both the particular items for which exceptions are provided and the nature of those exceptions. The acquirer should account for those items by applying the requirements in paragraphs 76–84, which will result in some items being:

(a) Recognised either by applying recognition conditions in addition to those in paragraphs 65–66 or by applying the requirements of other ASLBs, with results that differ from applying the recognition principle and conditions.

(b) Measured at an amount other than their acquisition-date fair values.

Exception to the Recognition Principle

Contingent Liabilities

76. ASLB 19, '*Provisions, Contingent Liabilities and Contingent Assets*', defines a contingent liability as:

(a) A possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events

not wholly within the control of the entity; or

(b) A present obligation that arises from past events, but is not recognised because:

i. It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
ii. The amount of the obligation cannot be measured with sufficient reliability.

77. The requirements in ASLB 19 do not apply in determining which contingent liabilities to recognise as of the acquisition date. Instead, the acquirer should recognise as of the acquisition date a contingent liability assumed in an acquisition where consideration is transferred if it is a present obligation that arises from past events and its fair value can be measured reliably[8]. Therefore, contrary to ASLB 19, the acquirer recognises a contingent liability assumed in an acquisition where consideration is transferred at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation. Paragraph 115 provides guidance on the subsequent accounting for contingent liabilities.

Exceptions to Both the Recognition and Measurement Principles

Income Taxes (Where Included in the Terms of the Acquisition)

78. [Refer to Appendix 1]

79. The acquirer should recognise and measure any remaining taxation items included in or arising from an acquisition.

Employee Benefits

80. The acquirer should recognise and measure a liability (or asset, if any) related to the acquired operation's employee benefit arrangements in accordance with ASLB 39.

Indemnification Assets

[8] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent.

81. The seller in an acquisition may contractually indemnify the acquirer for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability. For example, the seller may indemnify the acquirer against losses above a specified amount on a liability arising from a particular contingency; in other words, the seller will guarantee that the acquirer's liability will not exceed a specified amount. As a result, the acquirer obtains an indemnification asset. The acquirer should recognise an indemnification asset at the same time that it recognises the indemnified item measured on the same basis as the indemnified item, subject to the need for a valuation allowance for uncollectible amounts. Therefore, if the indemnification relates to an asset or a liability that is recognised at the acquisition date and measured at its acquisition-date fair value, the acquirer should recognise the indemnification asset at the acquisition date measured at its acquisition-date fair value. For an indemnification asset measured at fair value, the effects of uncertainty about future cash flows because of collectibility considerations are included in the fair value measure and a separate valuation allowance is not necessary (paragraph AG88 provides related application guidance).

82. In some circumstances, the indemnification may relate to an asset or a liability that is an exception to the recognition or measurement principles. For example, an indemnification may relate to a contingent liability that is not recognised at the acquisition date because its fair value is not reliably measurable at that date. Alternatively, an indemnification may relate to an asset or a liability, for example, one that results from an employee benefit, that is measured on a basis other than acquisition-date fair value. In those circumstances, the indemnification asset should be recognised and measured using assumptions consistent with those used to measure the indemnified item, subject to management's assessment of the collectibility of the indemnification asset and any contractual limitations on the indemnified amount. Paragraph 116 provides guidance on the subsequent accounting for an indemnification asset.

Exceptions to the Measurement Principle

Reacquired Rights

83. The acquirer should measure the value of a reacquired right recognised as an intangible asset on the basis of the remaining term of the related binding arrangement regardless of whether market participants would consider potential renewals of binding arrangements when measuring its fair value. Paragraphs AG79–AG80 provide related application guidance.

84. [Refer to Appendix 1]

Recognising and Measuring Goodwill or a Gain from a Bargain Purchase

85. ***The acquirer should recognise goodwill as of the acquisition date measured as the excess of (a) over (b) below, subject to the requirements of paragraph 86:***

   (a) The aggregate of:

      i. The consideration transferred measured in accordance with this Standard, which generally requires acquisition-date fair value (see paragraph 95);

      ii. The amount of any non-controlling interest in the acquired operation measured in accordance with this Standard; and

      iii. In an acquisition achieved in stages (see paragraphs 99–100), the acquisition-date fair value of the acquirer's previously held equity interest in the acquired operation.

   (b) The net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this Standard.

86. ***The acquirer should recognise goodwill only to the extent that the acquisition will result in:***

   (a) The generation of cash inflows (such as the acquisition of a cash-generating operation); and/or

(b) A reduction in the net cash outflows of the acquirer.

An acquirer should recognise any further excess of (a) over (b) in paragraph 85 above as a loss in surplus or deficit. Paragraph AG93 provides related application guidance.

87. In an acquisition in which the acquirer and the acquired operation (or its former owners) exchange only equity interests, the acquisition-date fair value of the acquired operation's equity interests may be more reliably measurable than the acquisition-date fair value of the acquirer's equity interests. If so, the acquirer should determine the amount of goodwill by using the acquisition-date fair value of the acquired operation's equity interests instead of the acquisition-date fair value of the equity interests transferred. To determine the amount of goodwill in an acquisition in which no consideration is transferred, the acquirer should use the acquisition-date fair value of the acquirer's interest in the acquired operation in place of the acquisition-date fair value of the consideration transferred (paragraph 85(a)(i)). Paragraph AG94 provides related application guidance.

Bargain Purchases

88. Occasionally in an entity combination classified as an acquisition, an acquirer will make a bargain purchase, which is an acquisition in which the amount in paragraph 85(b) exceeds the aggregate of the amounts specified in paragraph 85(a). If that excess remains after applying the requirements in paragraph 90, the acquirer should recognise the resulting gain in surplus or deficit on the acquisition date. The gain should be attributed to the acquirer.

89. A bargain purchase might happen, for example, in an acquisition that is a forced sale in which the seller is acting under economic compulsion. However, the recognition or measurement exceptions for particular items discussed in paragraphs 76–84 may also result in recognising a gain (or change the amount of a recognised gain) on a bargain purchase.

90. Before recognising a gain on a bargain purchase, the acquirer should reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and should recognise any

additional assets or liabilities that are identified in that review. The acquirer should then review the procedures used to measure the amounts this Standard requires to be recognised at the acquisition date for all of the following:

(a) The identifiable assets acquired and liabilities assumed;

(b) The non-controlling interest in the acquired operation, if any;

(c) For an acquisition achieved in stages, the acquirer's previously held equity interest in the acquired operation; and

(d) The consideration transferred.

The objective of the review is to ensure that the measurements appropriately reflect consideration of all available information as of the acquisition date.

91. In the local body, an entity sometimes obtains control of an operation in a non-exchange transaction in which it transfers consideration that is not approximately equal to the fair value of the acquired operation. Such circumstances include, but are not limited to:

(a) Compensated seizures of operations or entities; and

(b) The transfer of an operation to the acquirer by a donor for nominal consideration.

92. Where the economic substance of the entity combination is that of an acquisition, such non-exchange acquisitions are treated as bargain purchases and accounted for in accordance with paragraphs 88–90.

A Non-Exchange Acquisition Without the Transfer of Consideration

93. In the local body, an entity sometimes obtains control of an operation in a non-exchange transaction in which it transfers no consideration. Such circumstances include, but are not limited to:

(a) Uncompensated seizures of operations or entities (also known as statutory acquisitions).

(b) The transfer of an operation to the entity by a donor for no

consideration. Such transfers may take the form of a bequest.

And

(c) The transfer of an operation to the entity where the operation has net liabilities. The entity may accept the transfer of net liabilities to prevent the cessation of the operation. Such transactions are sometimes known as "bailouts".

94. Where the economic substance of the entity combination is that of an acquisition, the acquirer that obtains control of an acquired operation in a non-exchange transaction in which it transfers no consideration does not recognise goodwill. The acquirer recognises a gain or a loss in surplus or deficit in accordance with paragraph 86.

Consideration Transferred

95. The consideration transferred in an acquisition should be measured at fair value, which should be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquired operation and the equity interests issued by the acquirer.

96. The consideration transferred may include assets or liabilities of the acquirer that have carrying amounts that differ from their fair values at the acquisition date (for example, non-monetary assets or an operation of the acquirer). If so, the acquirer should remeasure the transferred assets or liabilities to their fair values as of the acquisition date and recognise the resulting gains or losses, if any, in surplus or deficit. However, sometimes the transferred assets or liabilities remain within the combined entity after the acquisition (for example, because the assets or liabilities were transferred to the acquired operation rather than to its former owners), and the acquirer therefore retains control of them. In that situation, the acquirer should measure those assets and liabilities at their carrying amounts immediately before the acquisition date and should not recognise a gain or loss in surplus or deficit on assets or liabilities it controls both before and after the acquisition.

Contingent Consideration

97. The consideration the acquirer transfers in exchange for the acquired operation includes any asset or liability resulting from a contingent consideration arrangement (see paragraph 95). The acquirer should recognise the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquired operation.

98. The acquirer should classify an obligation to pay contingent consideration that meets the definition of a financial instrument[9] as a financial liability[10] or as a component of net assets/equity on the basis of the definitions of an equity instrument[11] and a financial liability. The acquirer should classify as an asset a right to the return of previously transferred consideration if specified conditions are met. Paragraph 117 provides guidance on the subsequent accounting for contingent consideration.

An Acquisition Achieved in Stages

99. An acquirer sometimes obtains control of an acquired operation in which it held an equity interest immediately before the acquisition date. For example, on 31 December 20X1, Entity A holds a 35 percent non-controlling equity interest in Entity B. On that date, Entity A purchases an additional 40 percent interest in Entity B, which gives it control of Entity B. This Standard refers to such a transaction as an acquisition achieved in stages, sometimes also referred to as a step acquisition.

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[9] **Financial Instrument** is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.
A **financial asset** is any asset that is:
(a) cash;
(b) an equity instrument of another entity;
(c) a contractual right:
(i) to receive cash or another financial asset from another entity;
(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

[10] **Financial Liability** is any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

[11] An **equity Instrument** is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

100. In an acquisition achieved in stages, the acquirer should remeasure its previously held equity interest in the acquired operation at its acquisition-date fair value and recognise the resulting gain or loss, if any, in surplus or deficit or in net assets/equity, as appropriate. In prior reporting periods, the acquirer may have recognised changes in the value of its equity interest in the acquired operation in net assets/equity. If so, the amount that was recognised in net assets/equity should be recognised on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

100A. When a party to a joint arrangement (as defined in ASLB 37, '*Joint Arrangements*'[12]) obtains control of an operation that is a joint operation (as defined in ASLB 37), and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is an acquisition achieved in stages. The acquirer should therefore apply the requirements for an acquisition achieved in stages, including remeasuring its previously held interest in the joint operation in the manner described in paragraph 100. In doing so, the acquirer should remeasure its entire previously held interest in the joint operation.

Additional Guidance for Applying the Acquisition Method Where an Acquisition is Achieved Through Changes in Voting Rights, by Contract Alone, and Similar Circumstances in Which no Consideration is Transferred

An Acquisition Achieved Through Changes in Voting Rights, by Contract Alone, and Similar Circumstances not Involving the Transfer of Consideration

101. An acquirer sometimes obtains control of an acquired operation without transferring consideration. The acquisition method of accounting for an acquisition applies to those entity combinations. Such circumstances include:

(a) The acquired operation repurchases a sufficient number of its own shares for an existing investor (the acquirer) to obtain

[12] ASLB 37 is under formulation.

control.

(b) Minority veto rights lapse that previously kept the acquirer from controlling an acquired operation in which the acquirer held the majority voting rights.

(c) The acquirer and acquired operation agree to combine their operations by contract alone. The acquirer transfers no consideration in exchange for control of an acquired operation and holds no quantifiable ownership interests in the acquired operation, either on the acquisition date or previously.

102. In an acquisition achieved by contract alone, the acquirer should attribute to the owners of the acquired operation the amount of the acquired operation's net assets recognised in accordance with this Standard. In other words, the quantifiable ownership interests in the acquired operation held by parties other than the acquirer are a non-controlling interest in the acquirer's post-combination financial statements even if the result is that all of the quantifiable ownership interests in the acquired operation are attributed to the non-controlling interest.

Measurement Period

103. ***If the initial accounting for an acquisition is incomplete by the end of the reporting period in which the acquisition occurs, the acquirer should report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer should retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the acquirer should also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and***

circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period should not exceed one year from the acquisition date.

104. The measurement period is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognised for an acquisition. The measurement period provides the acquirer with a reasonable time to obtain the information necessary to identify and measure the following as of the acquisition date in accordance with the requirements of this Standard:

    (a) The identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquired operation;

    (b) The consideration transferred for the acquired operation (or the other amount used in measuring goodwill);

    (c) In an acquisition achieved in stages, the equity interest in the acquired operation previously held by the acquirer; and

    (d) The resulting goodwill, loss, or gain on a bargain purchase.

105. The acquirer should consider all pertinent factors in determining whether information obtained after the acquisition date should result in an adjustment to the provisional amounts recognised or whether that information results from events that occurred after the acquisition date. Pertinent factors include the date when additional information is obtained and whether the acquirer can identify a reason for a change to provisional amounts. Information that is obtained shortly after the acquisition date is more likely to reflect circumstances that existed at the acquisition date than is information obtained several months later. For example, unless an intervening event that changed its fair value can be identified, the sale of an asset to a third party shortly after the acquisition date for an amount that differs significantly from its provisional fair value measured at that date is likely to indicate an error in the provisional amount.

106. The acquirer recognises an increase (decrease) in the provisional amount recognised for an identifiable asset (liability) by means of a decrease (increase) in goodwill.

However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability. For example, the acquirer might have assumed a liability to pay damages related to an accident in one of the acquired operation's facilities, part or all of which are covered by the acquired operation's liability insurance policy. If the acquirer obtains new information during the measurement period about the acquisition-date fair value of that liability, the adjustment to goodwill resulting from a change to the provisional amount recognised for the liability would be offset (in whole or in part) by a corresponding adjustment to goodwill resulting from a change to the provisional amount recognised for the claim receivable from the insurer.

107. During the measurement period, the acquirer should recognise adjustments to the provisional amounts as if the accounting for the acquisition had been completed at the acquisition date. Thus, the acquirer should revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation, amortisation or other income effects recognised in completing the initial accounting.

108. After the measurement period ends, the acquirer should revise the accounting for an acquisition only to correct an error in accordance with ASLB 3.

Determining what is Part of the Acquisition Transaction

109. ***The acquirer and the acquired operation may have a pre-existing relationship or other arrangement before negotiations for the acquisition began, or they may enter into an arrangement during the negotiations that is separate from the acquisition. In either situation, the acquirer should identify any amounts that are not part of what the acquirer and the acquired operation (or its former owners) exchanged in the acquisition, i.e., amounts that are not part of the exchange for the acquired operation. The acquirer should recognise as part of applying the acquisition method only the consideration transferred for the acquired operation and the assets acquired***

and liabilities assumed in the exchange for the acquired operation. Separate transactions should be accounted for in accordance with the relevant ASLBs.

110. A transaction entered into by or on behalf of the acquirer or primarily for the benefit of the acquirer or the combined entity, rather than primarily for the benefit of the acquired operation (or its former owners) before the acquisition, is likely to be a separate transaction. The following are examples of separate transactions that are not to be included in applying the acquisition method:

(a) A transaction that in effect settles pre-existing relationships between the acquirer and acquired operation;

(b) A transaction that remunerates employees or former owners of the acquired operation for future services; and

(c) A transaction that reimburses the acquired operation or its former owners for paying the acquirer's acquisition-related costs.

Paragraphs AG99–AG106 provide related application guidance.

Acquisition-Related Costs

111. Acquisition-related costs are costs the acquirer incurs to effect an acquisition. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. The acquirer should account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities should be recognised in accordance with Guidance on '*Financial Instruments*'.

Subsequent Measurement and Accounting

112. ***In general, an acquirer should subsequently measure and account for assets acquired, liabilities assumed or incurred and equity instruments issued in an acquisition in accordance with other applicable ASLBs or Guidance on 'Financial Instruments' for those items, depending on their nature. However, this Standard***

provides guidance on subsequently measuring and accounting for the following assets acquired, liabilities assumed or incurred and equity instruments issued in an acquisition:

(a) Reacquired rights;

(b) Contingent liabilities recognised as of the acquisition date;

(c) Indemnification assets;

(d) Contingent consideration; and

(e) Income taxes (where not included in the terms of the acquisition).

Paragraphs AG107–AG108 provide related application guidance.

Reacquired Rights

113. A reacquired right recognised as an intangible asset should be amortised over the remaining period of the binding arrangement in which the right was granted. As per the requirement of ASLB 31, '*Intangible Assets*', it is presumed that the life of an intangible asset will not exceed ten years. The resulting entity should test the right for impairment whenever there is an indication that the right may be impaired. An acquirer that subsequently sells a reacquired right to a third party should include the carrying amount of the intangible asset in determining the gain or loss on the sale.

Transfers, Concessionary Loans and Similar Benefits Received by an Acquirer or Acquired Operation on the Basis of Criteria that May Change as a Result of an Acquisition

114. A transfer, concessionary loan or similar benefit, previously received by an acquirer or an acquired operation on the basis of criteria that change as a result of an acquisition, should be reassessed prospectively in accordance with other ASLBs (paragraphs AG109–AG111 provide related application guidance).

Contingent Liabilities

115. After initial recognition and until the liability is settled,

cancelled or expires, the acquirer should measure a contingent liability recognised in an acquisition at the higher of:

(a) The amount that would be recognised in accordance with ASLB 19; and

(b) The amount initially recognised less, if appropriate, cumulative amortisation recognised in accordance with ASLB 9, '*Revenue from Exchange Transactions'*.

This requirement does not apply to contracts accounted for in accordance with Guidance on '*Financial Instruments'*.

Indemnification Assets

116. At the end of each subsequent reporting period, the acquirer should measure an indemnification asset that was recognised at the acquisition date on the same basis as the indemnified liability or asset, subject to any contractual limitations on its amount and, for an indemnification asset that is not subsequently measured at its fair value, management's assessment of the collectibility of the indemnification asset. The acquirer should derecognise the indemnification asset only when it collects the asset, sells it or otherwise loses the right to it.

Contingent Consideration

117. Some changes in the fair value of contingent consideration that the acquirer recognises after the acquisition date may be the result of additional information that the acquirer obtained after that date about facts and circumstances that existed at the acquisition date. Such changes are measurement period adjustments in accordance with paragraphs 103–107. However, changes resulting from events after the acquisition date, such as reaching a milestone on a research and development project is not measurement period adjustments. The acquirer should account for changes in the fair value of contingent consideration that are not measurement period adjustments as follows:

(a) Contingent consideration classified as a component of net assets/ equity should not be remeasured and its subsequent

settlement should be accounted for within net assets/equity.

(b) Other contingent consideration that:

(i) Is within the scope of Guidance on '*Financial Instruments*' should be measured in accordance with Guidance on '*Financial Instruments*'.

(ii) Is not within the scope of Guidance on '*Financial Instruments*' should be measured at fair value at each reporting date and changes in fair value shall be recognised in surplus or deficit.

118. [Refer to Appendix 1].

Disclosures

119. ***The acquirer should disclose information that enables users of its financial statements to evaluate the nature and financial effect of an acquisition that occurs either:***

(a) During the current reporting period; or
(b) After the end of the reporting period but before the financial statements are authorised for issue.

120. To meet the objective in paragraph 119, the acquirer should disclose the following information for each acquisition that occurs during the reporting period:

(a) The name and a description of the acquired operation.

(b) The acquisition date.

(c) The percentage of voting equity interests or equivalent acquired.

(d) The primary reasons for the acquisition and a description of how the acquirer obtained control of the acquired operation including, where applicable, the legal basis for the acquisition.

(e) A qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining the operations of the acquired operation and the acquirer, intangible assets that do not qualify for separate recognition or other factors.

(f) The acquisition-date fair value of the total consideration

transferred and the acquisition-date fair value of each major class of consideration, such as:

i. Cash;

ii. Other tangible or intangible assets, including an operation or controlled entity of the acquirer;

iii. Liabilities incurred, for example, a liability for contingent consideration; and

iv. Equity interests of the acquirer, including the number of instruments or interests issued or issuable and the method of measuring the fair value of those instruments or interests.

(g) For contingent consideration arrangements and indemnification assets:

i. The amount recognised as of the acquisition date;

ii. A description of the arrangement and the basis for determining the amount of the payment; and

iii. An estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, the acquirer should disclose that fact.

(h) For acquired receivables:

i. The fair value of the receivables;

ii. The gross amounts receivable in accordance with a binding arrangement; and

iii. The best estimate at the acquisition date of the cash flows in accordance with a binding arrangement not expected to be collected.

The disclosures should be provided by major class of receivable, such as loans, direct finance leases and any other class of receivables.

(i) The amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed.

(j) For each contingent liability recognised in accordance with paragraph 77, the information required in paragraph 98 of ASLB 19. If a contingent liability is not recognised because its fair value cannot be measured reliably, the acquirer should disclose:

    (i) The information required by paragraph 100 of ASLB 19; and

    (ii) The reasons why the liability cannot be measured reliably.

(k) [Refer to Appendix 1]

(l) For transactions that are recognised separately from the acquisition of assets and assumption of liabilities in the acquisition in accordance with paragraph 109:

    (i) A description of each transaction;

    (ii) How the acquirer accounted for each transaction;

    (iii) The amounts recognised for each transaction and the line item in the financial statements in which each amount is recognised; and

    (iv) If the transaction is the effective settlement of a pre-existing relationship, the method used to determine the settlement amount.

(m) The disclosure of separately recognised transactions required by (l) should include the amount of acquisition-related costs and, separately, the amount of those costs recognised as an expense and the line item or items in the statement of income and expenditure in which those expenses are recognised. The amount of any issue costs not recognised as an expense and how they were recognised should also be disclosed.

(n) In an acquisition in which a loss is recognised in surplus or deficit (see paragraph 86):

    (i) The amount of the loss recognised in accordance with paragraph 86 and the line item in the statement of income and expenditure in which the loss is recognised; and

(ii) A description of the reasons why the transaction resulted in a loss.

(o) In a bargain purchase (see paragraphs 88–90):

(i) The amount of any gain recognised in accordance with paragraph 88 and the line item in the statement of income and expenditure in which the gain is recognised; and

(ii) A description of the reasons why the transaction resulted in a gain.

(p) For each acquisition in which the acquirer holds less than 100 percent of the quantifiable ownership interests or equivalent in the acquired operation at the acquisition date:

(i) The amount of the non-controlling interest in the acquired operation recognised at the acquisition date and the measurement basis for that amount; and

(ii) For each non-controlling interest in an acquired operation measured at fair value, the valuation technique(s) and significant inputs used to measure that value.

(q) In an acquisition achieved in stages:

(i) The acquisition-date fair value of the equity interest in the acquired operation held by the acquirer immediately before the acquisition date; and

(ii) The amount of any gain or loss recognised as a result of remeasuring to fair value the equity interest in the acquired operation held by the acquirer before the acquisition (see paragraph 100) and the line item in the statement of income and expenditure in which that gain or loss is recognised.

(r) The following information:

(i) The amounts of revenue and expense, and the surplus or deficit of the acquired operation since the

acquisition date included in the consolidated statement of income and expenditure for the reporting period; and

(ii) The revenue and expense, and the surplus or deficit of the combined entity for the current reporting period as though the acquisition date for all acquisitions that occurred during the year had been as of the beginning of the annual reporting period.

If disclosure of any of the information required by this sub-paragraph is impracticable, the acquirer should disclose that fact and explain why the disclosure is impracticable. This Standard uses the term 'impracticable' with the same meaning as in ASLB 3.

121. For individually immaterial acquisitions occurring during the reporting period that are material collectively, the acquirer should disclose in aggregate the information required by paragraph 120(e)–(r).

122. If the acquisition date of an acquisition is after the end of the reporting period but before the financial statements are authorised for issue, the acquirer should disclose the information required by paragraph 120 unless the initial accounting for the acquisition is incomplete at the time the financial statements are authorised for issue. In that situation, the acquirer should describe which disclosures could not be made and the reasons why they cannot be made.

123. ***The acquirer should disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognised in the current reporting period that relate to acquisitions that occurred in the period or previous reporting periods.***

124. To meet the objective in paragraph 123, the acquirer should disclose the following information for each material acquisition or in the aggregate for individually immaterial acquisitions that are material collectively:

(a) If the initial accounting for an acquisition is incomplete (see paragraph 103) for particular assets, liabilities, non-

controlling interests or items of consideration and the amounts recognised in the financial statements for the acquisition thus have been determined only provisionally:

(i) The reasons why the initial accounting for the acquisition is incomplete;

(ii) The assets, liabilities, quantifiable ownership interests (or equivalent) or items of consideration for which the initial accounting is incomplete; and

(iii) The nature and amount of any measurement period adjustments recognised during the reporting period in accordance with paragraph 107.

(b) For each reporting period after the acquisition date until the entity collects, sells or otherwise loses the right to a contingent consideration asset, or until the entity settles a contingent consideration liability or the liability is cancelled or expires:

i. Any changes in the recognised amounts, including any differences arising upon settlement;

ii. Any changes in the range of outcomes (undiscounted) and the reasons for those changes; and

iii. The valuation techniques and key model inputs used to measure contingent consideration.

(c) For contingent liabilities recognised in an acquisition, the acquirer should disclose the information required by paragraphs 97 and 98 of ASLB 19 for each class of provision.

(d) A reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period showing separately:

i. The gross amount and accumulated impairment losses at the beginning of the reporting period.

ii. Additional goodwill recognised during the reporting period.

iii. Adjustments related to income tax resulting from

the subsequent recognition of amounts during the reporting period.

iv. Goodwill derecognised during the reporting period.

v. Impairment losses recognised during the reporting period in accordance with ASLB 26, '*Impairment of Cash-Generating Assets*'. (ASLB 26 requires disclosure of information about the recoverable amount and impairment of goodwill in addition to this requirement.)

vi. Net exchange rate differences arising during the reporting period in accordance with ASLB 4, '*The Effects of Changes in Foreign Exchange Rates*'.

vii. Any other changes in the carrying amount during the reporting period.

viii. The gross amount and accumulated impairment losses at the end of the reporting period.

(e) The amount and an explanation of any gain or loss recognised in the current reporting period that both:

i. Relates to the identifiable assets acquired or liabilities assumed in an acquisition that was effected in the current or previous reporting period; and

ii. Is of such a size, nature or incidence that disclosure is relevant to understanding the combined entity's financial statements.

(f) [Refer to Appendix 1]

125. If the specific disclosures required by this and other ASLBs do not meet the objectives set out in paragraphs 119 and 123, the acquirer should disclose whatever additional information is necessary to meet those objectives.

126-134. [Refer to Appendix 1]

Appendix A

Application Guidance

This Appendix is an integral part of ASLB 40.

Definitions (see paragraph 5)

AG1. Paragraph 5 of this Standard defines a resulting entity as "the entity that is the result of two or more operations combining in an amalgamation." A resulting entity is not initially a party to the entity combination. A resulting entity may have the legal form of a new entity, or may retain the legal identity of one of the combining operations. However, a resulting entity usually has the economic substance of a new entity. In a combination in which one party to the combination gains control of one or more operations, and in which the economic substance is that of an amalgamation, the nature of the combination is usually that the resulting entity has the substance of a new entity.

Identifying an Entity Combination (see paragraph 6)

AG2. Paragraph 5 of this Standard defines an entity combination as "the bringing together of separate operations into one entity." The reference to one entity may be to a single entity or to an economic entity. Some entity reorganisations may involve more than one entity combination. The circumstances in which an entity combination might occur include:

(a) By mutual agreement; and

(b) By compulsion (for example by legislation).

AG3. Paragraph 5 of this Standard defines an operation as "an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purpose of achieving an entity's objectives, by providing goods and/or services."

AG4. An operation consists of inputs and processes applied to those inputs that have the ability to create outputs. Although operations usually have outputs, outputs are not required for an integrated set of activities and related assets and/or liabilities to qualify as an operation. For the purposes of this standard, the three elements of

an operation are defined as follows:

(a) **Input**: Any economic resource that creates, or has the ability to create, outputs when one or more processes are applied to it.

(b) **Process**: Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates or has the ability to create outputs.

(c) **Output**: The result of inputs and processes applied to those inputs that provide, or have the ability to provide, goods and/or services.

AG5. To be capable of being conducted and managed for the purposes defined, an integrated set of activities and assets and/or liabilities requires two essential elements—inputs and processes applied to those inputs, which together are or will be used to create outputs. However, an operation need not include all of the inputs or processes that the transferor used in operating that operation if the entity that receives the operation or operations is capable of continuing to produce outputs, for example, by integrating the operation with their own inputs and processes.

AG6. The nature of the elements of an operation varies by sector and by the structure of an entity's operations (activities), including the entity's stage of development. Established operations often have many different types of inputs, processes and outputs, whereas new operations often have few inputs and processes and sometimes only a single output (product). Nearly all operations also have liabilities, but an operation need not have liabilities.

AG7. An integrated set of activities and assets and/or liabilities in the development stage might not have outputs. In these cases, the entity that receives the operation should consider other factors to determine whether the set is an operation. Those factors include, but are not limited to, whether the set:

(a) Has begun planned principal activities;

(b) Has employees, intellectual property and other inputs and processes that could be applied to those inputs;

(c) Is pursuing a plan to produce outputs; and

(d) Will be able to obtain access to service recipients that will receive the outputs.

Not all of those factors need to be present for a particular integrated set of activities and assets and/or liabilities in the development stage to qualify as an operation.

AG8. Determining whether a particular set of activities and assets and/or liabilities is an operation should be based on whether the integrated set is capable of being conducted and managed as an operation by another entity. Thus, in evaluating whether a particular set is an operation, it is not relevant whether a transferor operated the set as an operation or whether the acquirer intends to operate the set as an operation.

AG9. In the absence of evidence to the contrary, a particular set of activities and assets and/or liabilities in which goodwill is present should be presumed to be an operation. However, an operation need not have goodwill.

Classification of Entity Combinations (see paragraphs 7–14)

Assessment of Control (see paragraphs 7–8)

AG10. Where a party to an entity combination gains control of one or more operations as a result of that combination, the combination is classified as either an amalgamation or an acquisition, depending on the economic substance of the combination. If no party to the combination gains control, the combination is classified as an amalgamation. In making this assessment the first step is to determine whether one of the entities that existed prior to the entity combination has gained control of one or more operations. Because this determination is made by reference to the entities that existed prior to the entity combination, it differs from the assessment of control made in accordance with ASLB 35, '*Consolidated Financial Statements*', where the assessment of control is made by reference to the entities that exist after an entity combination has taken place.

AG11. In determining whether one party to an entity combination gains control of one or more operations as a result of the combination, an entity applies the principles and guidance in ASLB 35. In applying

the principles and guidance, references to "an entity controls" are read as "an entity gains control of" and references to "another entity" are read as "an operation". For example, in determining whether one party to an entity combination gains control of one or more operations as a result of the combination for the purposes of this Standard, paragraph 20 of ASLB 35 should be read as follows (amended text is shown in italics):

> Thus, an entity *gains control of an operation* if and only if the entity *gains* all the following:
>
> (a) Power over the operation (see paragraphs 23–29);
> (b) Exposure, or rights, to variable benefits from its involvement with the operation (see paragraphs 30–34); and
> (c) The ability to use its power over the operation to affect the nature or amount of the benefits from its involvement with the operation (see paragraphs 35–37).

AG12. In applying the principles and guidance in ASLB 35, an entity has regard to paragraphs AG13–AG18.

AG13. An entity combination effected primarily by the transfer of consideration (i.e., by transferring cash or other assets or by incurring liabilities) usually results in one entity gaining control of one or more operations.

AG14. An entity combination effected primarily by exchanging equity interests usually results in one entity gaining control of one or more operations. Combinations involving an exchange of equity interests usually results in one entity having sufficient voting rights to gain control of one or more operations. This may occur without the entity having a majority of the voting rights where the entity has a large minority voting interest and no other owner or organised group of owners has a significant voting interest.

AG15. An entity combination involving the issuance of equity interests may give rise to a reverse acquisition (see paragraphs AG66–AG71). An entity considers this possibility in

determining whether one party to an entity combination gains control of operations.

AG16. In an entity combination involving more than two entities, the party to the entity combination that initiates the combination (if any) is more likely to gain control of operations than the other parties to the combination.

AG17. In an entity combination in which a new entity is formed to effect the combination, that entity may gain control of operations only where the entity exists prior to the combination taking place. Where this new entity does not exist prior to the combination taking place, an entity considers whether one of the parties to the combination that existed prior to the combination taking place gains control of operations.

AG18. If the application of this guidance identifies one party to the combination as gaining control of one or more operations, the combination is classified as either an amalgamation or an acquisition, depending on the economic substance of the combination. An entity considers the guidance in paragraphs 9–14 and AG19–AG50 to determine whether the economic substance of the combination is that of an amalgamation. If the application of the guidance does not identify one party to the combination as gaining control of one or more operations, the combination should be classified as an amalgamation.

Assessment of the Classification of an Entity Combination (see paragraphs 9–14)

AG19. If one party to an entity combination gains control of one or more operations as a result of the combination, the combination should be classified as either an amalgamation or an acquisition, depending on the economic substance of the combination. In assessing whether the economic substance of the combination is that of an amalgamation, an entity considers the economic substance of the entity combination and the indicators in paragraphs 12–14. A combination that does not have the economic substance of an amalgamation should be classified as an acquisition. In making this assessment, an entity considers the following guidance.

Economic Substance (see paragraph 9)

AG20. Usually, an analysis of the indicators in paragraphs 12–13, individually or on combination, will produce a conclusive result and provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation. A combination does not need to satisfy both of these indicators to be classified as an amalgamation.

AG21. Where consideration of the indicators in paragraphs 12–13 produces inconclusive results or does not provide sufficient evidence to clearly determine the economic substance of the combination, an entity considers the additional matters in paragraph 14.

AG22. The economic substance of an amalgamation is usually that a new entity is formed, irrespective of the legal form of the resulting entity. This applies equally to a combination in which one party to the combination gains control of one or more operations. If the economic substance of an entity combination is that one of the parties to the combination continues to exist, this may provide evidence that the economic substance of the combination is that of an acquisition. In combinations of operations under common control, the fact that the ultimate controlling entity controls the operations both before and after the combination reduces the significance of this factor.

AG23. An amalgamation involves the integration of the operations that are part of the entity combination. In other words, an amalgamation does not give rise to a controlling entity/ controlled entity relationship between parties to a combination. If, following the combination, any of the operations operate as controlled entities of a party to the combination, this may provide evidence that the economic substance of the combination is that of an acquisition.

AG24. An acquisition is usually a mutual agreement between two or more parties, and usually has commercial substance. However, in the local body, a party to the combination may be able to impose an entity combination on the other party to the combination. Where this results in the entity gaining access to economic benefits or service potential that are similar to those that could have been obtained by mutual agreement, it is probable that the economic

substance of the entity combination is that of an acquisition.

AG25. Where, after consideration of the indicators and the nature of the entity combination, there is insufficient evidence that the entity combination has the economic substance of an amalgamation, the combination should be classified as an acquisition.

Indicators Relating to Consideration (see paragraph 12)

AG26. Amalgamations usually do not involve the payment of consideration to compensate a seller for giving up their entitlement to the net assets of an operation. By contrast, acquisitions usually involve an exchange of consideration between those gaining control of the operations and those losing control of the operations.

AG27. The payment of consideration that is intended to compensate those with an entitlement to the net assets of the transferred operation for giving up that entitlement provides evidence that the economic substance of the entity combination is an acquisition. In such cases, the combination is classified as an acquisition.

AG28. The payment of consideration that is not intended to compensate the seller for giving up their entitlement to the net assets of an operation, but is, for example, intended to reimburse them for costs incurred in effecting the entity combination, may provide evidence that the economic substance of the combination is that of an amalgamation.

AG29. Acquisitions may occur without an exchange of consideration, for example where an individual bequeaths an operation to an entity. Consequently, the absence of consideration does not in itself provide evidence of the economic substance of the entity combination. In assessing consideration, an entity also considers the reasons why consideration was either paid or not paid.

AG30. Where an entity combination does not include the payment of consideration, an entity considers the reasons why no consideration has been paid. If the former owner has given up their entitlement to the net assets of an operation, or has had their entitlement extinguished through compulsion (for

example, in an uncompensated seizure), there may be evidence that the combination is an acquisition.

AG31. Where an entity combination does not include the payment of consideration because there is no party with an entitlement to the net assets of an operation, the economic substance of the combination will usually be that of an amalgamation. An acquisition involves a transfer of an operation from its former owner to its new owner. If there is no party with an entitlement to the net assets of an operation, there is no former owner, and the combination is usually not an acquisition. This scenario will only arise where a complete entity is being transferred; where an individual operation is being transferred, the entity transferring the operation will be the former owner and will be entitled to the net assets of the operation. Examples of entities where there will be no former owner(s) include municipalities and some not-for-profit organisations.

Indicators Relating to the Decision-Making Process (see paragraph 13)

AG32. An acquisition usually requires the voluntary participation of all the parties to the combination. Consequently, where an entity combination is imposed by a third party without any party to the combination being involved in the decision-making process, this may provide evidence that the economic substance of the combination is an amalgamation.

AG33. In other circumstances, the parties to the entity combination will be able to influence the terms of the combination to different degrees even when the combination is imposed by a third party. As the degree of influence the parties to the combination have increases, particularly the influence of the party that gains control of one or more operations, it becomes less likely that a conclusion regarding the economic substance of the combination can be drawn.

AG34. For example, the parties to the combination may be directed to combine by a regulator, but the regulator allows the parties to determine the terms of the combination. The economic substance of this entity combination is likely to be determined by the terms of the combination agreed by the parties rather than by the decision of the regulator that the parties must combine.

AG35. Where the party to the entity combination that gains control of one or more operations is able to impose the combination on the other party, this does not provide evidence that the economic substance of the combination is that of an amalgamation. For example, a local body may decide to statutorily acquire a private sector entity, contrary to the wishes of the shareholders. The fact that the local body (a party to the combination) is able to impose the acquisition, for example through legislation, does not provide evidence that the economic substance of the combination is an amalgamation. Where the party to the combination that gains control of one or more operations is able to impose the combination on the other party, this provides evidence that the economic substance of the combination is that of an acquisition.

AG36. [Refer to Appendix 1]

AG37. Where an entity combination takes place between two parties that are under common control, this may provide evidence that the economic substance of the combination is that of an amalgamation. Entity combinations under common control are often instigated by and on behalf of the controlling entity, and the controlling entity will often determine the terms of the combination. For example, a local body may decide to combine two entities, gas supply board and waste recycle board, for administrative or political reasons, and specify the terms of the combination. In such circumstances, the ultimate decision as to whether the combination takes place, and the terms of the combination, are determined by the controlling entity. This provides evidence that the economic substance of the combination is an amalgamation.

AG38. In some circumstances, two operations under common control may agree to combine voluntarily. However, this decision will usually be subject to the approval of the controlling entity, whether this approval is given explicitly or not. Where the approval of the controlling entity is required, this provides evidence that the ultimate decision as to whether the combination takes place, and the terms of the combination, are determined by the controlling entity. Consequently, this provides evidence that the economic substance of the

combination is that of an amalgamation.

AG39. Only where there is no evidence that the controlling entity is involved in the entity combination, either by instigating the combination, determining the terms of the combination, or approving (whether explicitly or implicitly) the combination, will there be no evidence that the economic substance of the combination is that of an amalgamation. In such circumstances, the entity considers all other factors in determining the classification of the entity combination.

Additional Matters to be Considered Where the Indicators Relating to Consideration and the Decision-Making Process do not Provide Sufficient Evidence to Determine Whether the Economic Substance of the Combination is that of an Amalgamation (see paragraph 14)

AG40. Where an analysis of the indicators relating to consideration and the decision-making process produces inconclusive results or does not provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation, an entity considers which classification and resulting accounting treatment would provide information that:

(a) Best meets the objectives of financial reporting; and

(b) Best satisfies the qualitative characteristics (QCs).

AG41. An analysis of the indicators relating to consideration and the decision-making process will usually produce a conclusive result and provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation. This is because the indicators relating to consideration and the decision-making process will provide evidence of the economic substance of an entity combination in all but exceptional circumstances. As a result, where it is clear that the indicators have been met, the additional matters set out in paragraph 14 are not considered in determining the classification.

AG42. Where an analysis of the indicators relating to consideration and the decision- making process provides inconclusive results or does not provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation, an entity considers which classification would provide information that best

meets the objectives of financial reporting. The determination of whether an entity combination is classified as an acquisition or an amalgamation can significantly affect the financial reporting of the combination. Consequently, it is important to consider the information each method provides and the principal users of that information.

AG43. The modified pooling of interests method views the combination from the perspective of each of the combining operations and their owners or constituents who are uniting their interests in the resulting entity. Using the modified pooling of interests method of accounting, the combining operations measure the reported assets and liabilities at their carrying amounts in the financial statements of the combining operations as of the amalgamation date. Such information may assist users in assessing the performance of the resulting entity based upon the combined historical assets and liabilities of the combining operations at the date of the amalgamation and in comparing operating results with prior periods. However, this comparability may be reduced where adjustments to achieve consistent accounting policies are required. It does not include information about the market's expectation of the value of the future cash flows associated with assets and liabilities, other than assets and liabilities recorded at fair value prior to the date of the amalgamation.

AG44. The acquisition method views a combination from the perspective of the acquirer—the entity that gains control of the other operations. The acquirer purchases or otherwise gains control over net assets and recognises in its financial statements the assets acquired and liabilities assumed, including those not previously recognised by the acquired operation. Such information assists users of the financial statements in assessing the initial investments made and the subsequent performance of those investments and comparing them with the performance of other entities based on the investment made by the acquirer. It also includes information about the market's expectation of the value of the future cash flows associated with those assets and liabilities. While it revalues the assets and liabilities of the acquired operation, it does not affect the valuation of assets and liabilities held by the acquirer prior to the acquisition. Further, depending on the relationship between the

amounts in paragraph 85(a) and 85(b) and other factors (for example, a bargain purchase), it may result in the immediate recognition of a gain or loss through surplus or deficit.

AG45. The information provided by each approach is summarised in the following table.

	Amalgamation	**Acquisition**
Perspective	Perspective of each of the combining operations and their owners or constituents.	Perspective of the acquirer.
User information	Assists users of the financial statements in assessing the performance of the resulting entity based upon the combined historical assets and liabilities of the combining operations at the date of the amalgamation and in comparing operating results with prior periods.	Assists users of the financial statements in assessing the initial investments made and the subsequent performance of those investments.
Basis of reported values	Measures the reported assets and liabilities at their carrying amounts in the financial statements of the combining operations as of the amalgamation date.	Revalues the identifiable assets and liabilities of the acquired operation but does not affect the valuation of assets and liabilities held by the acquirer. Includes information about the market's expectation of the value of the future cash flows

		associated with those assets and liabilities.
Ability to compare to operating results of prior periods	May facilitate the comparison of operating results with prior periods. Comparability may be reduced where adjustments to achieve consistent accounting policies are required.	Difficult to compare operating results with prior periods.

AG46. Consideration of which classification would provide information that best meets the objectives of financial reporting provides evidence of the economic substance of the entity combination where an analysis of the indicators relating to consideration and the decision-making process provides inconclusive results or does not provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation.

AG47. Where an analysis of the indicators relating to consideration and the decision-making process provides inconclusive results or does not provide sufficient evidence to determine the classification of the combination, an entity considers which classification would provide information that best satisfies the QCs of relevance, faithful representation, understandability, timeliness, comparability and verifiability. In making this assessment, an entity also considers the constraints on information included in general purpose financial reports, which are materiality, cost-benefit and the balance between the QCs.

AG48. When considering the classification of an entity combination, some QCs will be more significant than others. For example, timeliness will be less significant than understandability when considering whether a combination is an amalgamation or an acquisition.

AG49. An entity considers the QCs and the constraints on information from the perspective of the users of the financial statements. This will include consideration of the following questions; this list is not exhaustive.

(a) Which classification most faithfully represents the economic substance of the entity combination, which may be different from its legal form? Does that classification faithfully represent an entity's financial performance and financial position?

(b) Which classification will help users understand the nature of the entity combination? For example, in an amalgamation, any difference between the total recognised assets and total recognised liabilities is recognised in net assets/equity, whereas in an acquisition, the acquirer recognises goodwill, or a gain or loss in the reporting period. Which approach best helps the user to understand the nature of the combination?

(c) Users' needs are best served when the information provided in respect of a transaction is comparable. How are similar entity combinations classified?

AG50. Consideration of which classification would provide information that best meets the QCs provides evidence of the economic substance of the entity combination where an analysis of the indicators relating to consideration and the decision-making process provides inconclusive results or does not provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation.

Accounting for Amalgamations

Eliminating Transactions Between the Combining Operations (see paragraph 22)

AG51. A resulting entity eliminates the effects of all transactions between the combining operations. For many transactions, elimination will take place automatically. For example, one combining operation provided services for a fee to another combining operation prior to the amalgamation date. The revenue of the combining operation that provided the services is reflected in that combining operation's accumulated surplus or deficit at the amalgamation date. The expense of the combining operation receiving the services is reflected in that combining operation's accumulated surplus or deficit at the amalgamation date. The resulting entity will recognise both amounts in net assets/equity.

AG52. Elimination may not take place automatically where one combining operation has recognised an asset, and another combining operation has recognised a corresponding liability as a result of the transaction between two combining operations. The resulting entity eliminates both the asset and the liability, and recognises any difference between the asset and liability in net assets/equity.

Carrying Amounts to be Used (see paragraphs 26–27)

AG53. Where a combining operation has previously been acquired in an acquisition (i.e., it was previously an acquired operation), the carrying amounts of the combining operation's assets and liabilities in its separate financial statements may be different to the carrying amounts of those assets and liabilities in the controlling entity's financial statements. In an acquisition, the controlling entity would measure the combining operation's assets and liabilities at their fair value. However, where the combining operation (i.e., the previously acquired operation) continues to prepare separate financial statements, it would use its previous carrying amounts. The fair value measurements in the financial statements of the controlling entity are not pushed down to the combining operation.

AG54. To meet the requirements in paragraphs 26–27, a resulting entity measures the identifiable assets and liabilities of the combining operations at their carrying amounts in the financial statements of the combining operations as of the amalgamation date, subject to the requirement to adjust the carrying amounts to conform to the resulting entity's accounting policies. The resulting entity does not measure the assets and liabilities at the carrying amounts in the financial statements of the controlling entity.

Licenses and Similar Rights Previously Granted by One Combining Operation to Another Combining Operation (see paragraph 32)

AG55. As part of an amalgamation, a resulting entity may receive a license or similar right that had previously been granted by one combining operation to another combining operation to use one or more of the grantor's recognised or unrecognised assets. Examples of such rights include a right to use the acquirer's technology under a technology licensing agreement. The resulting entity recognises this

license or similar right as an identifiable intangible asset, and measures the intangible asset at its carrying amount in the financial statements of the combining operation as of the amalgamation date. Because the license or similar right has previously been part of a binding arrangement, the license satisfies both the separability and binding arrangement criteria in ASLB 31, '*Intangible Assets'*. Paragraph 47 provides guidance on the subsequent accounting for a license or similar right previously granted by one combining operation to another combining operation.

AG56. The resulting entity assesses both the license or similar right previously granted by one combining operation to another combining operation, and the underlying asset (where the underlying asset is a recognised asset) for impairment in accordance with ASLB 21, '*Impairment of Non-Cash- Generating Assets'* and ASLB 26, '*Impairment of Cash-Generating Assets'*, at the amalgamation date.

Amounts of Tax Due in an Amalgamation (Where Included in the Terms of the Amalgamation) (see paragraph 34)

AG57. The resulting entity should account for a combining operation's tax due where included in the terms of the amalgamation.

AG58. [Refer to Appendix 1]

Recognition of Goodwill (see paragraph 36)

AG59. Amalgamations do not give rise to goodwill, and consequently a resulting entity does not recognise goodwill arising from an amalgamation. Paragraphs 37–38 specify the treatment of the net assets/equity arising as a result of the amalgamation.

AG60. Where a combining operation has previously recognised goodwill as a result of a previous acquisition, the resulting entity recognises this goodwill in its opening balance sheet.

Subsequent Measurement of Transfers, Concessionary Loans and Similar Benefits Received by a Combining Operation on the Basis of Criteria that May Change as a Result of an Amalgamation (see paragraph 48)

AG61. Prior to an amalgamation taking place, a combining operation may receive a transfer from a third party, based on specified criteria. For example, Central government may provide grants to those municipalities where the average household income is below a threshold. An amalgamation of two municipalities may involve one municipality which met the criteria and received the grant, and one municipality which did not meet the criteria and which did not receive the grant. Following the amalgamation, the average household income of the new, combined municipality will either be above or below the threshold, which may cause the grantor to reassess the amount of grant given.

AG62. The resulting entity should not account for any revisions to the grant amount as part of the amalgamation, but should account for any revisions at the point the grantor makes its intentions known in accordance with other ASLBs.

AG63. Similar circumstances may arise in respect of concessionary loans and other benefits. The resulting entity should not account for any revisions to those transactions as part of the amalgamation, but should account for any revisions at the point the grantor makes its intentions known in accordance with other ASLBs.

Amalgamations Occurring during a Reporting Period (see paragraphs 50–52)

AG64. To meet the requirements of paragraphs 50–52, the resulting entity is not required to present financial statements for periods prior to the amalgamation date, although it may elect to do so by making the disclosures specified in paragraph 54(g). Where the resulting entity does not elect to present financial statements for periods prior to the amalgamation date, it meets the needs of the users of its financial statements for information about the combining operations prior to the amalgamation by:

(a) Where financial statements have been issued on behalf of the combining operations for a reporting period ending immediately prior to the amalgamation date (which may be a partial period), directing the users of its financial statements to the financial statements issued on behalf of

the combining operations.

(b) Where no financial statements have been issued on behalf of the combining operations for a reporting period ending immediately prior to the amalgamation date (which may be a partial period), making the disclosures required by paragraph 54(h).

AG65. To satisfy the requirements of a regulator, it may be necessary for the combining operations and/or the resulting entity to present or disclose information in addition to that required by this Standard.

Accounting for Acquisitions

Reverse Acquisitions

AG66. A reverse acquisition occurs when the entity that issues securities (the legal acquirer) is identified as the acquired operation for accounting purposes on the basis of the guidance in paragraphs AG10–AG18. The entity whose equity interests are acquired (the legal acquired operation) must be the acquirer for accounting purposes for the transaction to be considered a reverse acquisition. For example, reverse acquisitions sometimes occur when an entity wants to become a listed entity but does not want to register its equity shares. To accomplish that, the entity will arrange for a listed entity to acquire its equity interests in exchange for the equity interests of the listed entity. In this example, the listed entity is the legal acquirer because it issued its equity interests, and the entity is the legal acquired operation because its equity interests were acquired. However, application of the guidance in paragraphs AG10–AG18 results in identifying:

(a) The listed entity as the acquired operation for accounting purposes (the accounting acquired operation)–i.e., the listed entity does not gain control of one or more operations; and

(b) The entity as the acquirer for accounting purposes (the accounting acquirer)–i.e., the entity does gain control of one or more operations.

The accounting acquired operation must meet the definition of an operation for the transaction to be accounted for as a reverse

acquisition, and all of the recognition and measurement principles in this Standard, including the requirement to recognise goodwill, apply.

Measuring the Consideration Transferred

AG67. In a reverse acquisition, the accounting acquirer usually issues no consideration for the acquired operation. Instead, the accounting acquired operation usually issues its equity shares to the owners of the accounting acquirer. Accordingly, the acquisition-date fair value of the consideration transferred by the accounting acquirer for its interest in the accounting acquired operation is based on the number of equity interests the legal controlled entity would have had to issue to give the owners of the legal controlling entity the same percentage equity interest in the combined entity that results from the reverse acquisition. The fair value of the number of equity interests calculated in that way can be used as the fair value of consideration transferred in exchange for the acquired operation.

Preparation and Presentation of Consolidated Financial Statements

AG68. Consolidated financial statements prepared following a reverse acquisition are issued under the name of the legal controlling entity (accounting acquired operation) but described in the notes as a continuation of the financial statements of the legal controlled entity (accounting acquirer), with one adjustment, which is to adjust retroactively the accounting acquirer's legal capital to reflect the legal capital of the accounting acquired operation. That adjustment is required to reflect the capital of the legal controlling entity (the accounting acquired operation). Comparative information presented in those consolidated financial statements also is retroactively adjusted to reflect the legal capital of the legal controlling entity (accounting acquired operation).

AG69. Because the consolidated financial statements represent the continuation of the financial statements of the legal controlled entity except for its capital structure, the consolidated financial statements reflect:

(a) The assets and liabilities of the legal controlled entity (the accounting acquirer) recognised and measured at their pre-combination carrying amounts.

(b) The assets and liabilities of the legal controlling entity (the accounting acquired operation) recognised and measured in accordance with this Standard.

(c) The accumulated surplus or deficit and other equity balances of the legal controlled entity (accounting acquirer) before the acquisition.

(d) The amount recognised as issued equity interests in the consolidated financial statements determined by adding the issued equity interest of the legal controlled entity (the accounting acquirer) outstanding immediately before the acquisition to the fair value of the legal controlling entity (accounting acquired operation). However, the equity structure (i.e., the number and type of equity interests issued) reflects the equity structure of the legal controlling entity (the accounting acquired operation), including the equity interests the legal controlling entity issued to effect the acquisition. Accordingly, the equity structure of the legal controlled entity (the accounting acquirer) is restated using the exchange ratio established in the acquisition agreement to reflect the number of shares of the legal controlling entity (the accounting acquired operation) issued in the reverse acquisition.

(e) The non-controlling interest's proportionate share of the legal controlled entity's (accounting acquirer's) pre-acquisition carrying amounts of retained earnings and other equity interests as discussed in paragraphs AG70 and AG71.

Non-Controlling Interest

AG70. In a reverse acquisition, some of the owners of the legal acquired operation (the accounting acquirer) might not exchange their equity interests for equity interests of the legal controlling entity (the accounting acquired operation). Those owners are treated as a non-controlling interest in the consolidated financial statements after the reverse acquisition. That is because the owners of the legal acquired operation that do not exchange their equity interests for

equity interests of the legal acquirer have an interest in only the results and net assets of the legal acquired operation—not in the results and net assets of the combined entity. Conversely, even though the legal acquirer is the acquired operation for accounting purposes, the owners of the legal acquirer have an interest in the results and net assets of the combined entity.

AG71. The assets and liabilities of the legal acquired operation are measured and recognised in the consolidated financial statements at their pre-combination carrying amounts (see paragraph AG69(a)). Therefore, in a reverse acquisition the non-controlling interest reflects the non-controlling shareholders' proportionate interest in the pre-acquisition carrying amounts of the legal acquired operation's net assets even if the non-controlling interests in other acquisitions are measured at their fair value at the acquisition date.

Recognising Particular Assets Acquired and Liabilities Assumed in an Acquisition (see paragraphs 64–68)

Operating Leases

AG72. The acquirer should recognise no assets or liabilities related to an operating lease in which the acquired operation is the lessee except as required by paragraphs AG73–AG74.

AG73. The acquirer should determine whether the terms of each operating lease in which the acquired operation is the lessee are favorable or unfavorable. The acquirer should recognise an intangible asset if the terms of an operating lease are favorable relative to market terms and a liability if the terms are unfavorable relative to market terms. Paragraph AG89 provides guidance on measuring the acquisition-date fair value of assets subject to operating leases in which the acquired operation is the lessor.

AG74. An identifiable intangible asset may be associated with an operating lease, which may be evidenced by market participants' willingness to pay a price for the lease even if it is at market terms. For example, a lease of shopping complex might provide entry into a market or other future economic benefits or service potential that qualify as identifiable intangible assets. In that situation, the acquirer should recognise the associated identifiable intangible asset(s) in accordance with paragraph AG75.

Intangible Assets

AG75. The acquirer should recognise, separately from goodwill, the identifiable intangible assets acquired in an acquisition. An intangible asset is identifiable if it meets either the separability criterion or the binding arrangement criterion.

AG76. An intangible asset that meets the binding arrangement criterion is identifiable even if the asset is not transferable or separable from the acquired operation or from other rights and obligations. For example:

(a) An acquired operation leases a facility under an operating lease that has terms that are favorable relative to market terms. The lease terms explicitly prohibit transfer of the lease (through either sale or sublease). The amount by which the lease terms are favorable compared with the terms of current market transactions for the same or similar items is an intangible asset that meets the binding arrangement criterion for recognition separately from goodwill, even though the acquirer cannot sell or otherwise transfer the lease arrangement.

(b) An acquired operation owns and operates a hydro-electricity power plant. The license to operate that power plant is an intangible asset that meets the binding arrangement criterion for recognition separately from goodwill, even if the acquirer cannot sell or transfer it separately from the acquired power plant. An acquirer may recognise the fair value of the operating license and the fair value of the power plant as a single asset for financial reporting purposes if the useful lives of those assets are similar.

(c) An acquired operation owns a technology patent. It has licensed that patent to others for their exclusive use. Both the technology patent and the related license agreement meet the binding arrangement criterion for recognition separately from goodwill even if selling or exchanging the patent and the related license agreement separately from one another would not be practical.

AG77. The separability criterion means that an acquired intangible asset is capable of being separated or divided from the acquired operation and sold, transferred, licensed, rented or exchanged, either individually or together with a related binding arrangement, identifiable asset or liability. An intangible asset that the acquirer would be able to sell, license or otherwise exchange for something else of value meets the separability criterion even if the acquirer does not intend to sell, license or otherwise exchange it. An acquired intangible asset meets the separability criterion if there is evidence of exchange transactions for that type of asset or an asset of a similar type, even if those transactions are infrequent and regardless of whether the acquirer is involved in them. For example, lists of users of a service are frequently licensed and thus meet the separability criterion. Even if an acquired operation believes its lists of users of a service have characteristics different from other lists of users of a service, the fact that lists of users of a service are frequently licensed generally means that the acquired list of users of a service meets the separability criterion. However, a list of users of a service acquired in an acquisition would not meet the separability criterion if the terms of confidentiality or other agreements prohibit an entity from selling, leasing or otherwise exchanging information about its users of a service.

AG78. An intangible asset that is not individually separable from the acquired operation or combined entity meets the separability criterion if it is separable in combination with a related binding arrangement, identifiable asset or liability. For example, an acquired operation owns a registered trademark and documented but unpatented technical expertise used to manufacture the trademarked product. To transfer ownership of a trademark, the owner is also required to transfer everything else necessary for the new owner to produce a product or service indistinguishable from that produced by the former owner. Because the unpatented technical expertise must be separated from the acquired operation or combined entity and sold if the related trademark is sold, it meets the separability criterion.

Reacquired Rights

AG79. As part of an acquisition, an acquirer may reacquire a right that

it had previously granted to the acquired operation to use one or more of the acquirer's recognised or unrecognised assets. Examples of such rights include a right to use the acquirer's technology under a technology licensing agreement. A reacquired right is an identifiable intangible asset that the acquirer recognises separately from goodwill or a gain from a bargain purchase. Paragraph 83 provides guidance on measuring a reacquired right and paragraph 113 provides guidance on the subsequent accounting for a reacquired right.

AG80. If the terms of the binding arrangement giving rise to a reacquired right are favorable or unfavorable relative to the terms of current market transactions for the same or similar items, the acquirer should recognise a settlement gain or loss. Paragraph AG100 provides guidance for measuring that settlement gain or loss.

Assembled Workforce and Other Items that are not Identifiable

AG81. The acquirer subsumes into goodwill the value of an acquired intangible asset that is not identifiable as of the acquisition date. For example, an acquirer may attribute value to the existence of an assembled workforce, which is an existing collection of employees that permits the acquirer to continue to operate an acquired operation from the acquisition date. An assembled workforce does not represent the intellectual capital of the skilled workforce—the (often specialised) knowledge and experience that employees of an acquired operation bring to their jobs. Because the assembled workforce is not an identifiable asset to be recognised separately from goodwill or a gain from a bargain purchase, any value attributed to it is subsumed into goodwill or a gain from a bargain purchase.

AG82. The acquirer also subsumes into goodwill or a gain from a bargain purchase any value attributed to items that do not qualify as assets at the acquisition date. For example, the acquirer might attribute value to potential binding arrangements the acquired operation is negotiating with prospective new customers at the acquisition date. Because those potential binding arrangements are not themselves assets at the acquisition date, the acquirer does not recognise them separately from goodwill or a gain from a bargain purchase. The

acquirer should not subsequently reclassify the value of those binding arrangements from goodwill for events that occur after the acquisition date. However, the acquirer should assess the facts and circumstances surrounding events occurring shortly after the acquisition to determine whether a separately recognisable intangible asset existed at the acquisition date.

AG83. After initial recognition, an acquirer accounts for intangible assets acquired in an acquisition in accordance with the provisions of ASLB 31. However, as described in paragraph 6 of ASLB 31, the accounting for some acquired intangible assets after initial recognition is prescribed by other ASLBs.

AG84. The identifiability criteria determine whether an intangible asset is recognised separately from goodwill. However, the criteria neither provide guidance for measuring the fair value of an intangible asset nor restrict the assumptions used in measuring the fair value of an intangible asset. For example, the acquirer would take into account the assumptions that market participants would use when pricing the intangible asset, such as expectations of future renewals of binding arrangements, in measuring fair value. It is not necessary for the renewals themselves to meet the identifiability criteria. (However, see paragraph 83, which establishes an exception to the fair value measurement principle for reacquired rights recognised in an acquisition.)

Amounts of Tax Due in an Acquisition (Where Included in the Terms of the Acquisition) (see paragraph 79)

AG85. The acquirer should account for an acquired operation's tax due where included in the terms of the acquisition.

AG86-87. [Refer to Appendix 1]

Measuring the Fair Value of Particular Identifiable Assets and a Non-Controlling Interest in an Acquired Operation in an Acquisition (see paragraphs 72–73)

Assets with Uncertain Cash Flows (Valuation Allowances)

AG88. The acquirer should not recognise a separate valuation allowance as of the acquisition date for assets acquired in an acquisition that are measured at their acquisition-date fair

values because the effects of uncertainty about future cash flows are included in the fair value measure. For example, because this Standard requires the acquirer to measure acquired receivables, including loans, at their acquisition-date fair values in accounting for an acquisition, the acquirer does not recognise a separate valuation allowance for the cash flows of the binding arrangement that are deemed to be uncollectible at that date or a loss allowance for expected credit losses.

Assets Subject to Operating Leases in Which the Acquired Operation is the Lessor

AG89. In measuring the acquisition-date fair value of an asset such as a building that is subject to an operating lease in which the acquired operation is the lessor, the acquirer should take into account the terms of the lease. In other words, the acquirer does not recognise a separate asset or liability if the terms of an operating lease are either favorable or unfavorable when compared with market terms as paragraph AG73 requires for leases in which the acquired operation is the lessee.

Assets that the Acquirer Intends not to Use or to Use in a Way that is Different from the Way Other Market Participants Would Use them

AG90. To protect its competitive position, or for security or other reasons, the acquirer may intend not to use an acquired non-financial asset actively, or it may not intend to use the asset according to its highest and best use. For example, that might be the case for an acquired research and development intangible asset that the acquirer plans to use defensively by preventing others from using it. Nevertheless, the acquirer should measure the fair value of the non-financial asset assuming its highest and best use by market participants in accordance with the appropriate valuation premise, both initially and when measuring fair value less costs of disposal for subsequent impairment testing.

Non-Controlling Interest in an Acquired Operation

AG91. This Standard allows the acquirer to measure a non-controlling interest in the acquired operation at its fair value at the acquisition date. Sometimes an acquirer will be able to measure the

acquisition-date fair value of a non-controlling interest on the basis of a quoted price in an active market for the equity shares (i.e., those not held by the acquirer). In other situations, however, a quoted price in an active market for the equity shares will not be available. In those situations, the acquirer would measure the fair value of the non-controlling interest using other valuation techniques.

AG92. The fair values of the acquirer's interest in the acquired operation and the non-controlling interest on a per-share basis might differ. The main difference is likely to be the inclusion of a control premium in the per-share fair value of the acquirer's interest in the acquired operation or, conversely, the inclusion of a discount for lack of control (also referred to as a non-controlling interest discount) in the per-share fair value of the non-controlling interest if market participants would take into account such a premium or discount when pricing the non-controlling interest.

Measuring Goodwill or a Gain from a Bargain Purchase in an Acquisition (see paragraphs 85–98)

Relationship Between Goodwill and Cash Flows (see paragraph 86)

AG93. The acquirer should recognise goodwill only to the extent that the acquirer estimates there will be favorable changes to its net cash flows, either from increased cash inflows or decreased cash outflows. An acquirer should not recognise goodwill related to service potential other than cash flows.

Measuring the Acquisition-Date Fair Value of the Acquirer's Interest in the Acquired Operation Using Valuation Techniques (see paragraph 87)

AG94. In an acquisition achieved without the transfer of consideration, the acquirer must substitute the acquisition-date fair value of its interest in the acquired operation for the acquisition-date fair value of the consideration transferred to measure goodwill, a loss or a gain on a bargain purchase (see paragraphs 85–87).

AG95-97. [Refer to Appendix 1]

Determining what is Part of the Acquisition Transaction (see paragraphs 109–111)

AG98. The acquirer should consider the following factors, which are neither mutually exclusive nor individually conclusive, to determine whether a transaction is part of the exchange for the acquired operation or whether the transaction is separate from the acquisition:

(a) The reasons for the transaction. Understanding the reasons why the parties to the acquisition (the acquirer and the acquired operation and their owners, directors and managers—and their agents) entered into a particular transaction or arrangement may provide insight into whether it is part of the consideration transferred and the assets acquired or liabilities assumed. For example, if a transaction is arranged primarily for the benefit of the acquirer or the combined entity rather than primarily for the benefit of the acquired operation or its former owners before the combination, that portion of the transaction price paid (and any related assets or liabilities) is less likely to be part of the exchange for the acquired operation. Accordingly, the acquirer would account for that portion separately from the acquisition.

(b) Who initiated the transaction. Understanding who initiated the transaction may also provide insight into whether it is part of the exchange for the acquired operation. For example, a transaction or other event that is initiated by the acquirer may be entered into for the purpose of providing future economic benefits to the acquirer or combined entity with little or no benefit received by the acquired operation or its former owners before the combination. On the other hand, a transaction or arrangement initiated by the acquired operation or its former owners is less likely to be for the benefit of the acquirer or the combined entity and more likely to be part of the acquisition transaction.

(c) The timing of the transaction. The timing of the transaction may also provide insight into whether it is part of the

exchange for the acquired operation. For example, a transaction between the acquirer and the acquired operation that takes place during the negotiations of the terms of an acquisition may have been entered into in contemplation of the acquisition to provide future economic benefits to the acquirer or the combined entity. If so, the acquired operation or its former owners before the acquisition are likely to receive little or no benefit from the transaction except for benefits they receive as part of the combined entity.

Effective Settlement of a Pre-Existing Relationship between the Acquirer and Acquired Operation in an Acquisition (see paragraph 110(a))

AG99. The acquirer and acquired operation may have a relationship that existed before they contemplated the acquisition, referred to here as a 'pre-existing relationship'. A pre-existing relationship between the acquirer and acquired operation may arise from a binding arrangement (for example, vendor and customer or licensor and licensee) or may arise outside of a binding arrangement (for example, plaintiff and defendant).

AG100. If the acquisition in effect settles a pre-existing relationship, the acquirer recognises a gain or loss, measured as follows:

(a) For a pre-existing relationship arising outside of a binding arrangement (such as a lawsuit), fair value.

(b) For a pre-existing relationship arising from a binding arrangement, the lesser of (i) and (ii):

(i) The amount by which the binding arrangement is favorable or unfavorable from the perspective of the acquirer when compared with terms for current market transactions for the same or similar items. (An unfavorable binding arrangement is a binding arrangement that is unfavorable in terms of current market terms. It is not necessarily an onerous binding arrangement in which the unavoidable costs of meeting the obligations under the binding arrangement exceed the economic benefits expected to be received under it.)

(ii) The amount of any stated settlement provisions in

the binding arrangement available to the counterparty to whom the binding arrangement is unfavorable.

If (ii) is less than (i), the difference is included as part of the acquisition accounting.

The amount of gain or loss recognised may depend in part on whether the acquirer had previously recognised a related asset or liability, and the reported gain or loss therefore may differ from the amount calculated by applying the above requirements.

AG101. A pre-existing relationship may be a binding arrangement that the acquirer recognises as a reacquired right. If the binding arrangement includes terms that are favorable or unfavorable when compared with pricing for current market transactions for the same or similar items, the acquirer recognises, separately from the acquisition, a gain or loss for the effective settlement of the binding arrangement, measured in accordance with paragraph AG100.

Arrangements for Contingent Payments to Employees or Selling Shareholders (see paragraph 110(b))

AG102. Whether arrangements for contingent payments to employees or selling shareholders are contingent consideration in the acquisition or are separate transactions depends on the nature of the arrangements. Understanding the reasons why the acquisition agreement includes a provision for contingent payments, who initiated the arrangement and when the parties entered into the arrangement may be helpful in assessing the nature of the arrangement.

AG103. If it is not clear whether an arrangement for payments to employees or selling shareholders is part of the exchange for the acquired operation or is a transaction separate from the acquisition, the acquirer should consider the following indicators:

(a) Continuing employment. The terms of continuing employment by the selling shareholders who become key employees may be an indicator of the substance of a contingent consideration arrangement. The relevant terms

of continuing employment may be included in an employment agreement, acquisition agreement or some other document. A contingent consideration arrangement in which the payments are automatically forfeited if employment terminates is remuneration for post-combination services. Arrangements in which the contingent payments are not affected by employment termination may indicate that the contingent payments are additional consideration rather than remuneration.

(b) Duration of continuing employment. If the period of required employment coincides with or is longer than the contingent payment period, that fact may indicate that the contingent payments are, in substance, remuneration.

(c) Level of remuneration. Situations in which employee remuneration other than the contingent payments is at a reasonable level in comparison with that of other key employees in the combined entity may indicate that the contingent payments are additional consideration rather than remuneration.

(d) Incremental payments to employees. If selling shareholders who do not become employees receive lower contingent payments on a per-share basis than the selling shareholders who become employees of the combined entity, that fact may indicate that the incremental amount of contingent payments to the selling shareholders who become employees is remuneration.

(e) Number of shares owned. The relative number of shares owned by the selling shareholders who remain as key employees may be an indicator of the substance of the contingent consideration arrangement. For example, if the selling shareholders who owned only a small number of shares in the acquired operation continue as key employees and all selling shareholders receive the same amount of contingent consideration on a per-share basis, that fact may indicate that the contingent payments are additional consideration. The pre- acquisition ownership interests held by parties related to selling shareholders who continue as key

employees, such as family members, should also be considered.

(f) Linkage to the valuation. If the initial consideration transferred at the acquisition date is based on the low end of a range established in the valuation of the acquired operation and the contingent formula relates to that valuation approach, that fact may suggest that the contingent payments are additional consideration.

(g) Formula for determining consideration. The formula used to determine the contingent payment may be helpful in assessing the substance of the arrangement. For example, if a contingent payment is determined on the basis of a multiple of earnings, that might suggest that the obligation is contingent consideration in the acquisition and that the formula is intended to establish or verify the fair value of the acquired operation.

(h) Other agreements and issues. The terms of other arrangements with selling shareholders (such as agreements not to compete, executory contracts, consulting contracts and property lease agreements) and the income tax treatment of contingent payments may indicate that contingent payments are attributable to something other than consideration for the acquired operation. For example, in connection with the acquisition, the acquirer might enter into a property lease arrangement with a significant selling shareholder. If the lease payments specified in the lease arrangement are significantly below market, some or all of the contingent payments to the lessor (the selling shareholder) required by a separate arrangement for contingent payments might be, in substance, payments for the use of the leased property that the acquirer should recognise separately in its post- combination financial statements. In contrast, if the lease arrangement specifies lease payments that are consistent with market terms for the leased property, the arrangement for contingent payments to the selling shareholder may be contingent consideration in the acquisition.

AG104-106. [Refer to Appendix 1]

Subsequent Measurement and Accounting (see paragraph 112)

AG107. Examples of other ASLBs that provide guidance on subsequently measuring and accounting for assets acquired and liabilities assumed or incurred in an acquisition include:

(a) ASLB 31 prescribes the accounting for identifiable intangible assets acquired in an acquisition. The acquirer measures goodwill at the amount recognised at the acquisition date less any accumulated impairment losses. ASLB 26 prescribes the accounting for impairment losses.

(b) ASLB 35 provides guidance on accounting for changes in a controlling entity's ownership interest in a controlled entity after control is obtained.

AG108. [Refer to Appendix 1]

Subsequent Measurement of Transfers, Concessionary Loans and Similar Benefits Received by an Acquirer or Acquired Operation on the Basis of Criteria that May Change as a Result of an Acquisition (see paragraph 114)

AG109. Prior to an acquisition taking place, an acquirer or an acquired operation may receive a transfer from a third party, based on specified criteria. For example, a Central government may provide grants to those municipalities where the municipality's revenue per head of population is below a threshold. An acquisition by a municipality of a cash-generating operation may increase the revenue per head of population of the municipality so that it is above the threshold. This may cause the government to review the grant.

AG110. The acquirer should not account for any revisions to the grant amount as part of the acquisition, but accounts for any revisions at the point the grantor makes its intentions known in accordance with other ASLBs.

AG111. Similar circumstances may arise in respect of concessionary loans and other benefits. The acquirer should not account for any revisions to those transactions as part of the acquisition, but

accounts for any revisions at the point the grantor makes its intentions known in accordance with other ASLBs.

Acquisitions Occurring during a Reporting Period

AG112. The resulting entity meets the needs of the users of its financial statements for information about the acquired operations prior to the acquisition by making the disclosures in paragraph 120(r).

AG113. To satisfy the requirements of a regulator, it may be necessary for the acquirer to present or disclose information in addition to that required by this Standard.

AG114-115. [Refer to Appendix 1]

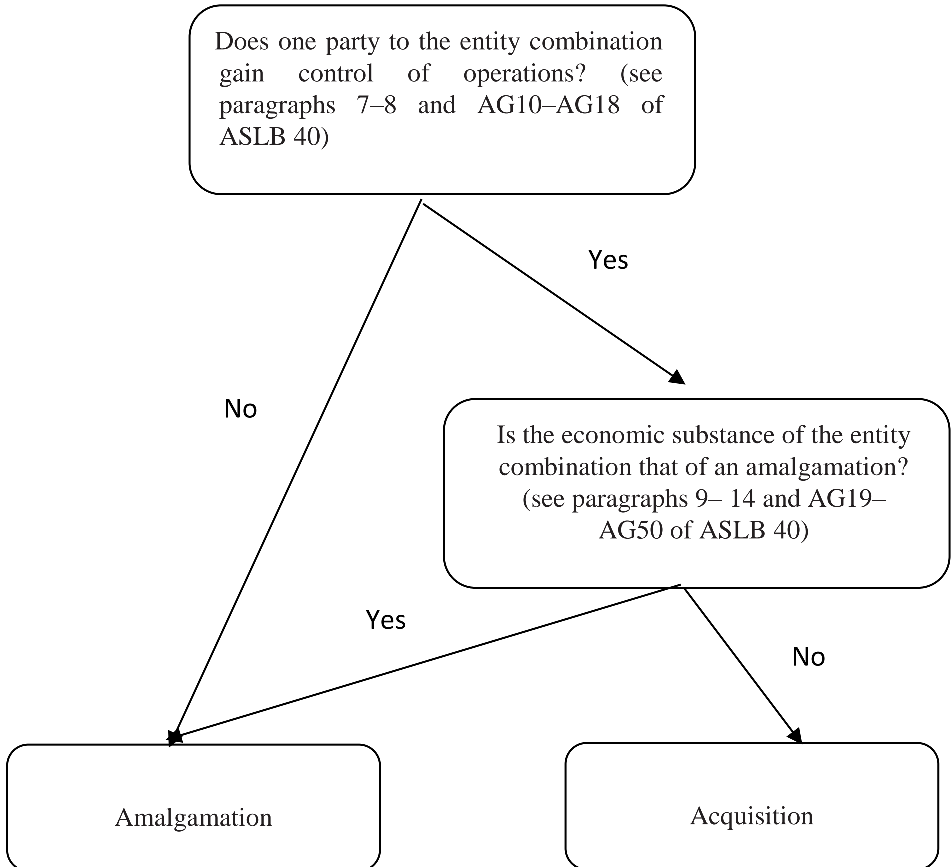
Implementation Guidance

This guidance accompanies, but is not part of, ASLB 40.

IG1. The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of ASLB 40.

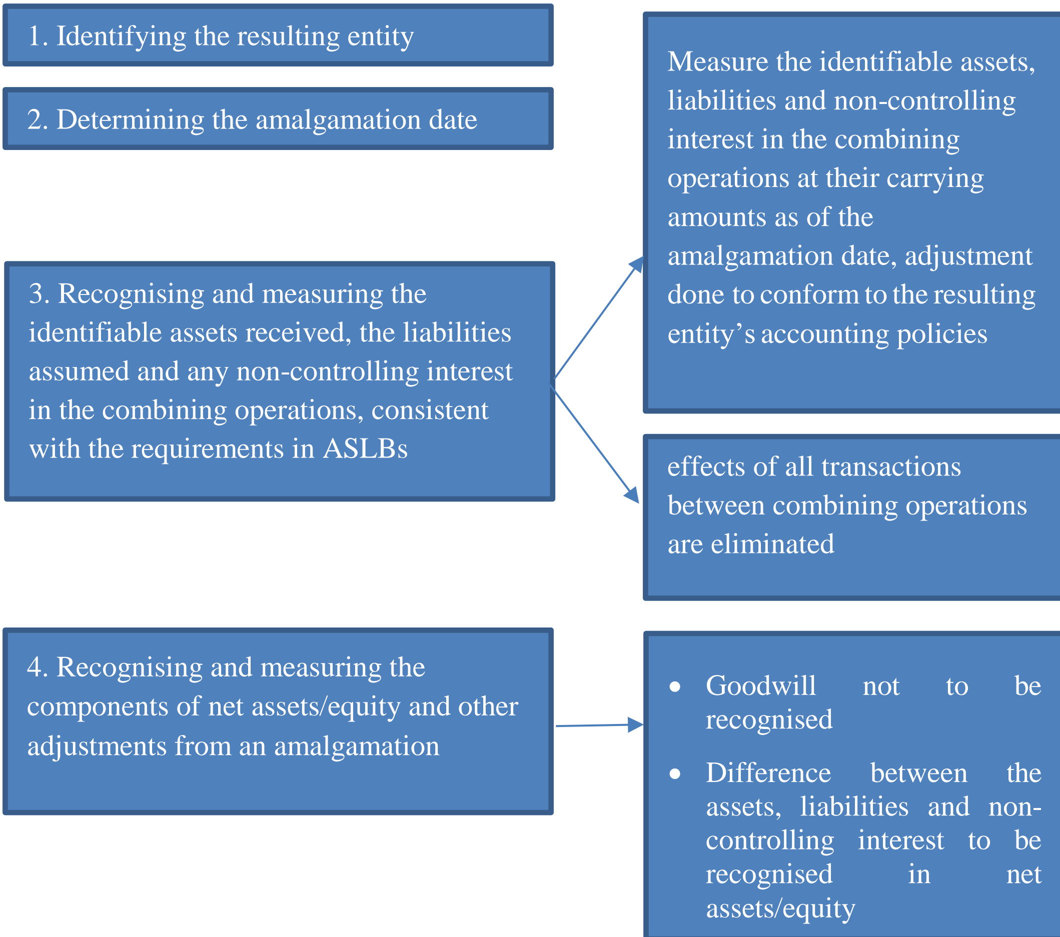
Classification of Entity Combinations

IG2. The diagram below summarises the process established by ASLB 40 for classifying entity combinations.

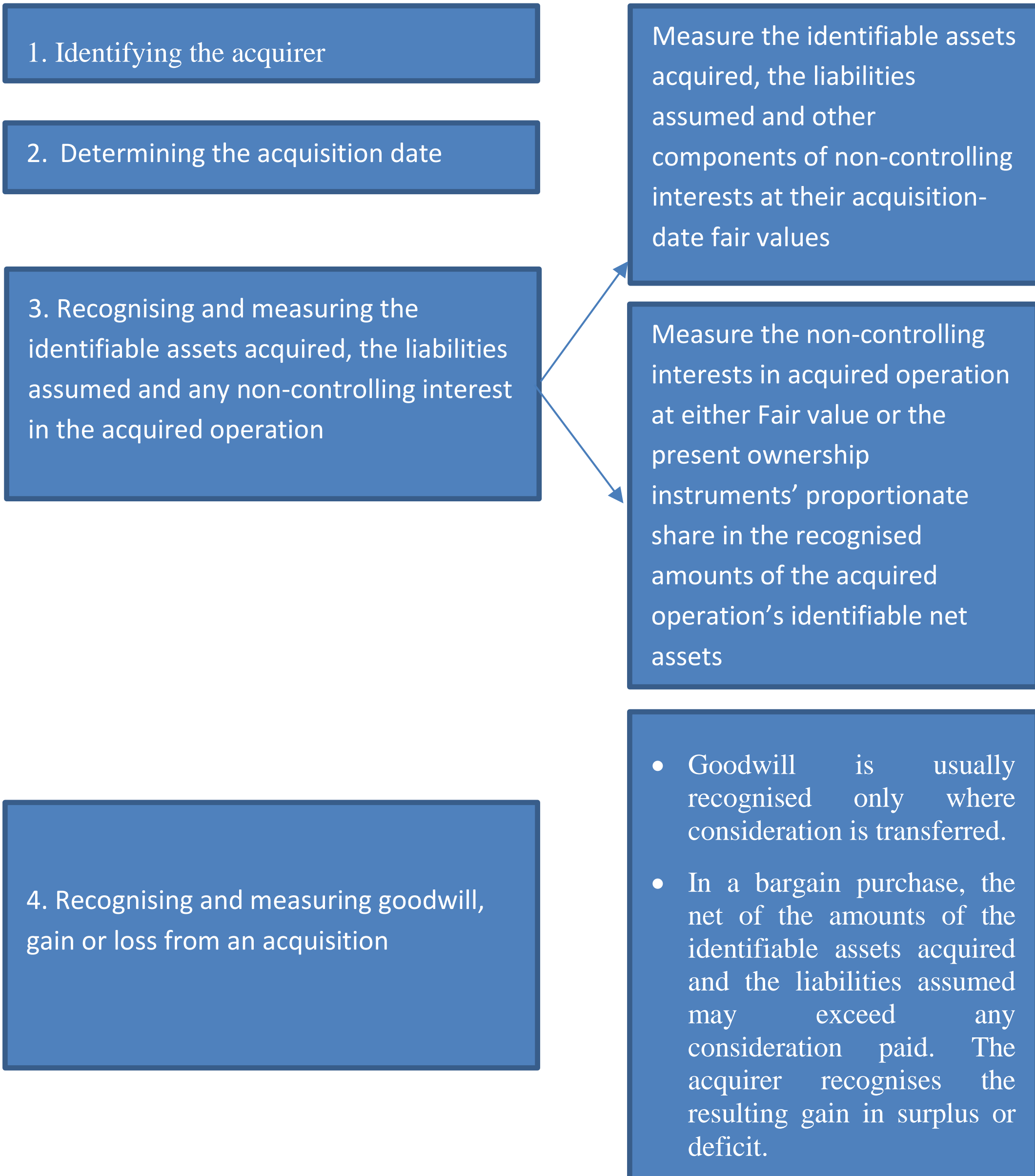


Accounting of Entity Combinations

IG2A. The diagram below summarises the accounting treatment for amalgamation according to modified pooling of interests method of accounting in the books of resulting entity as prescribed in paragraphs 15-49 of ASLB 40.



IG2B. The diagram below summarises the accounting treatment for amalgamation according to acquisition method in the books of acquirer entity as prescribed in paragraphs 58-118 of ASLB 40.



Illustrative Examples

These examples accompany, but are not part of, ASLB 40.

Classification of Entity Combinations

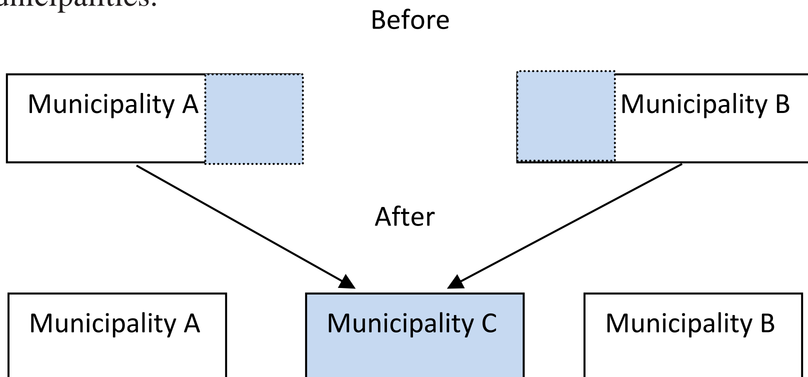
Illustrating the Consequences of Applying Paragraphs 7–14 and AG10–AG50 of ASLB 40

IE1. The following scenarios illustrate the process for classifying entity combinations. These scenarios portray hypothetical situations. Although some aspects of the scenarios may be present in actual fact patterns, all facts and circumstances of a particular fact pattern would need to be evaluated when applying ASLB 40.

IE2. Each scenario is illustrated by a diagram. Where an entity combination involves operations which form part of an economic entity, but not the whole economic entity, the operations that are involved in the combination, and the entity that is formed by the combination, are shaded in the diagram. Where more than one reporting entity is included in an economic entity, the boundary of the economic entity is shown by a dotted line.

Scenario 1: Reorganisation of Local Government by Rearranging Territorial Boundaries

IE3. The following diagram illustrates the creation of a new municipality by combining some operations from two existing municipalities.



IE4. In this scenario, the territorial boundaries of two existing municipalities, Municipality A and Municipality B, are redrawn through legislation. Responsibility for part of each municipality's former territory is transferred to a new municipality, Municipality C. Operations in respect of the transferred territory are combined to form Municipality C. An entity combination occurs.

IE5. Municipality A and Municipality B remain otherwise unchanged and retain their governing bodies. A new governing body (unrelated to the governing bodies of Municipality A and Municipality B) is elected for Municipality C to manage the operations that are transferred from the other municipalities.

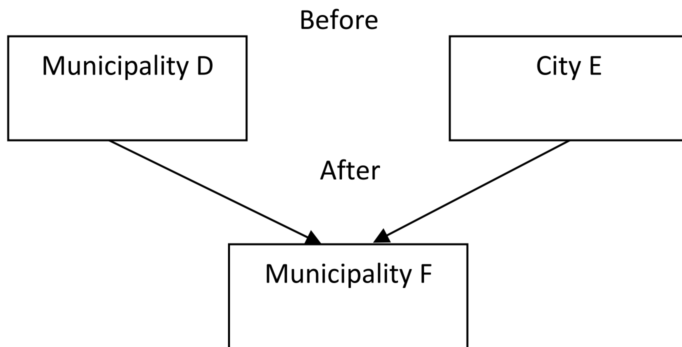
IE6. The creation of Municipality C is an entity combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.

IE7. Municipality C has a newly elected governing body, unrelated to the governing bodies of Municipality A and Municipality B. Neither Municipality A nor Municipality B has power over the Municipality C. Neither do they have exposure, or rights, to variable benefits from any involvement with Municipality C.

IE8. Neither Municipality A nor Municipality B have gained control over Municipality C as a result of the entity combination. Consequently the combination is classified as an amalgamation.

Scenario 2: Reorganisation of Local Government by Combining Municipalities into a New Legal Entity

IE9. The following diagram illustrates the creation of a new municipality by combining all of the operations of two existing municipalities into a new legal entity.



IE10. In this scenario, an entity combination occurs in which Municipality F is formed to combine the operations (and the related assets, liabilities and components of net assets/equity) of Municipality D and City E. Prior to the combination, Municipality D and City E are not under common control. The combination is imposed by the State government (a third party) through legislation. The State government has the legal power to direct the two entities to combine, through legislation, even though it does not control them.

IE11. The legislation that creates Municipality F provides for the formation of a new governing body with no links to Municipality D or City E. Municipality D and City E have no role in determining the terms of the combination. After the combination, Municipality D and City E cease to exist.

IE12. The creation of Municipality F is an entity combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.

IE13. Municipality F has a newly formed governing body, unrelated to the governing bodies of Municipality D and City E. Neither Municipality D nor City E has power over Municipality F. Neither do they have exposure, or rights, to variable benefits from any involvement with Municipality F.

IE14. Neither Municipality D nor City E have gained control over Municipality F as a result of the entity combination. Consequently the combination is classified as an amalgamation.

Scenario 2: Variation

IE15. In scenario 2, the legislation that creates Municipality F provides for the formation of a new governing body with no links to Municipality D or City E. In this variation, the legislation that creates Municipality F provides for the governing body of Municipality D to become the governing body of Municipality F.

IE16. This suggests that as part of the entity combination that creates Municipality F, Municipality D is gaining control of the operations of City E. However, the assessment as to whether Municipality D is gaining control is based on the substance of the combination, not its legal form. In preparing its first financial statements, Municipality F considers the guidance in paragraphs 7–8 and AG10–AG18 of ASLB 40.

IE17. In this variation, it is assumed that the legislation that provides for the governing body of Municipality D to become the governing body of Municipality F results in Municipality D gaining:

(a) Power over the operations of City E;
(b) Exposure, or rights, to variable benefits from its involvement with those operations; and
(c) The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.

IE18. Municipality F concludes that, as a result of the entity combination, Municipality D has gained control of City E. Municipality F considers the guidance in paragraphs 9–14 and AG19–AG50 of ASLB 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE19. In considering the economic substance of the entity combination, Municipality F notes that the combination does not result in a controlling entity/controlled entity relationship between Municipality D and City E. This is consistent with both an amalgamation and an acquisition. Municipality F also notes that Municipality D obtains access to economic benefits or service

potential that are similar to those that could have been obtained by mutual agreement; this may suggest that the economic substance of the combination is that of an acquisition, but is not conclusive.

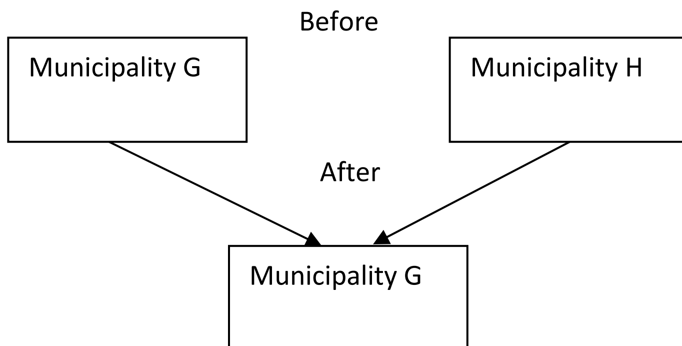
IE20. In considering the indicators relating to consideration, Municipality F notes that the entity combination does not include the payment of consideration because there is no party with an entitlement to the net assets of City E (i.e., there are no former owners of City E with quantifiable ownership interests). This suggests that the economic substance of the combination is that of an amalgamation.

IE21. In considering the indicators relating to the decision-making process, Municipality F notes that the entity combination was imposed by the State government (a third party) and that Municipality D and City E had no role in determining the terms of the combination. This may suggest that the economic substance of the combination is that of an amalgamation.

IE22. Taking these factors together, Municipality F considers that the entity combination should be classified as an amalgamation. In coming to this decision, Municipality F considers the absence of consideration because there is no party with an entitlement to the net assets of an operation to be the most significant factor in determining the economic substance of the combination.

Scenario 3: Reorganisation of Local Government by Combining Municipalities into an Existing Legal Entity

IE23. The following diagram illustrates the combining of all of the operations of two existing municipalities into an existing legal entity.



IE24. In this scenario, an entity combination occurs in which the operations of Municipality G and Municipality H (and their

related assets, liabilities and components of net assets/equity) are combined into the legal entity of Municipality G. Prior to the combination, Municipality G and Municipality H are not under common control. The combination is imposed by State Government (a third party) through legislation. State Government has the legal power to direct the two entities to combine, through legislation, even though it does not control them.

IE25. The legislation that effects the combination provides for the governing body of Municipality G to continue as the governing body of the combined entity. Municipality G and Municipality H have no role in determining the terms of the combination. After the entity combination, Municipality H ceases to exist.

IE26. These facts suggest that as part of the entity combination, Municipality G is gaining control of the operations of Municipality H. However, the assessment as to whether Municipality G is gaining control is based on the substance of the combination, not its legal form. Municipality G considers the guidance in paragraphs 7–8 and AG10–AG18 of ASLB 40 in determining whether to classify the combination as an amalgamation or an acquisition.

IE27. In this scenario, it is assumed that the legislation that provides for the governing body of Municipality G to continue as the governing body of combined entity results in Municipality G gaining:

(a) Power over the operations of Municipality H;
(b) Exposure, or rights, to variable benefits from its involvement with those operations; and
(c) The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.

IE28. Municipality G concludes that, as a result of the entity combination, it has gained control of Municipality H. Municipality G considers the guidance in paragraphs 9–14 and AG19–AG50 of ASLB 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE29. In considering the economic substance of the entity combination, Municipality G notes that the combination does not result in a controlling entity/controlled entity relationship between Municipality G and Municipality H. This is consistent with both an amalgamation and an acquisition. Municipality G also notes that it obtains access to economic benefits or service potential that are similar to those that could have been obtained by mutual agreement; this may suggest that the economic substance of the combination is that of an acquisition, but is not conclusive.

IE30. In considering the indicators relating to consideration, Municipality G notes that the entity combination does not include the payment of consideration because there is no party with an entitlement to the net assets of Municipality H (i.e., there are no former owners of Municipality H with quantifiable ownership interests). This suggests that the economic substance of the combination is that of an amalgamation.

IE31. In considering the indicators relating to the decision-making process, Municipality G notes that the entity combination was imposed by State Government (a third party) and that Municipality G and Municipality H had no role in determining the terms of the combination. This may suggest that the economic substance of the combination is that of an amalgamation.

IE32. Taking these factors together, Municipality G considers that the entity combination should be classified as an amalgamation. In coming to this decision, Municipality G considers the absence of consideration because there is no party with an entitlement to the net assets of an operation to be the most significant factor in determining the economic substance of the combination.

Scenario 3: Variation

IE33. In scenario 3, the legislation provides for the governing body of Municipality G to become the governing body of the combined entity. In this variation, the legislation provides for a new governing body to be formed that has no links to Municipality G or Municipality H.

IE34. In determining whether this entity combination should be classified

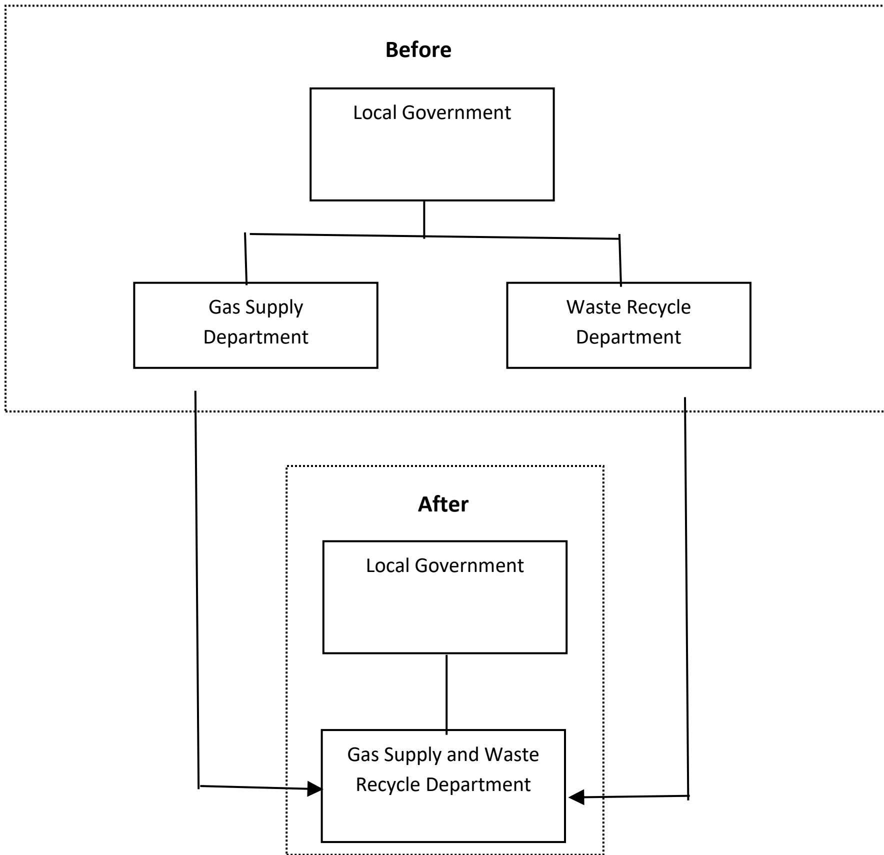
as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.

IE35. Despite its legal form continuing, Municipality G has a newly formed governing body, unrelated to its previous governing body or that of Municipality H. Consequently, the previous Municipality G does not gain power over Municipality H. Neither does it have exposure, or rights, to variable benefits from any involvement with Municipality H.

IE36. Municipality G has not gained control over Municipality H as a result of the entity combination. Consequently the combination is classified as an amalgamation.

Scenario 4: Restructuring of Local Government Departments

IE37. The following diagram illustrates the reorganisation of Local Government departments by combining the Gas Supply Department and the Waste Recycle Department into the newly formed Gas Supply and Waste Recycle Department.



IE38. In this scenario, an entity combination occurs in which the Gas Supply and Waste Recycle Department is formed to combine the operations (and the related assets, liabilities and components of net assets/equity) of the Gas Supply Department and the Waste Recycle Department. All the departments, both prior to and after the combination, are controlled by Local Government. The combination is imposed by Local Government using this control. The Gas Supply Department and the Waste Recycle Department have no role in determining the terms of the combination.

IE39. In effecting the combination, Local Government gives responsibility for the new Gas Supply and Waste Recycle Department to the governing body of the Gas Supply Department. After the combination, the Waste Recycle

Department and the Gas Supply Department cease to exist.

IE40. As Local Government controls the same operations both before and after the entity combination, Local Government does not report a combination in its consolidated financial statements. The combination is reported by the Gas Supply and Waste Recycle Department.

IE41. The creation of the Gas Supply and Waste Recycle Department is an entity combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.

IE42. Local Government gives responsibility for the new Gas Supply and Waste Recycle Department to the governing body of the Gas Supply Department. This suggests that as part of the entity combination that creates the new Gas Supply and Waste Recycle Department, the Gas Supply Department is gaining control of the operations of the Waste Recycle Department. However, the assessment as to whether the Gas Supply Department is gaining control is based on the substance of the combination, not its form. In determining whether the combination should be classified as an amalgamation or an acquisition, the Gas Supply and Waste Recycle Department considers the guidance in paragraphs 7–8 and AG10–AG18 of ASLB 40.

IE43. In this scenario, it is assumed that the decision of Local Government to give responsibility for the new Gas Supply and Waste Recycle Department to the governing body of the Gas Supply Department results in the Gas Supply Department gaining:

(a) Power over the operations of the Waste Recycle Department;
(b) Exposure, or rights, to variable benefits from its involvement with those operations; and
(c) The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.

IE44. The Gas Supply and Waste Recycle Department concludes that, as a result of the entity combination, the Gas Supply Department has gained control of the Waste Recycle Department. The Gas Supply and Waste Recycle Department considers the guidance in paragraphs

9–14 and AG19–AG50 of ASLB 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE45. In considering the economic substance of the entity combination, the Gas Supply and Waste Recycle Department notes that the combination does not result in a controlling entity/controlled entity relationship between the Waste Recycle Department and the Gas Supply Department. This is consistent with both an amalgamation and an acquisition. The Waste Recycle Department also notes that the Gas Supply Department obtains access to economic benefits or service potential that are similar to those that could have been obtained by mutual agreement; this may suggest that the economic substance of the combination is that of an acquisition.

IE46. In considering the indicators relating to consideration, the Gas Supply and Waste Recycle Department notes that the entity combination does not include the payment of consideration because the combination took place under common control, and Local Government, the controlling entity, did not specify any consideration in the terms of the combination. Consequently, although the absence of consideration may suggest that the economic substance of the combination is that of an amalgamation, this is not of itself conclusive and other factors also need to be taken into account.

IE47. In considering the indicators relating to the decision-making process, the Gas Supply and Waste Recycle Department notes that the entity combination takes place under common control. The combination was directed by Local Government and the Waste Recycle Department and the Gas Supply Department had no role in determining the terms of the combination. This provides evidence that the ultimate decision as to whether the combination took place, and the terms of the combination, are determined by the Local Government, the controlling entity. This provides evidence that the economic substance of the combination is that of an amalgamation.

IE48. Taking these factors together, the Gas Supply and Waste Recycle Department considers that the entity combination should be classified as an amalgamation. In coming to this decision, the fact that the entity combination takes place under common control is considered to be the most significant factor in

determining the economic substance of the combination.

Scenario 4: Variation

IE49. In scenario 4, Local Government gives responsibility for the new Gas Supply and Waste Recycle Department to the governing body of the Gas Supply Department. In this variation, Local Government appoints a new governing body.

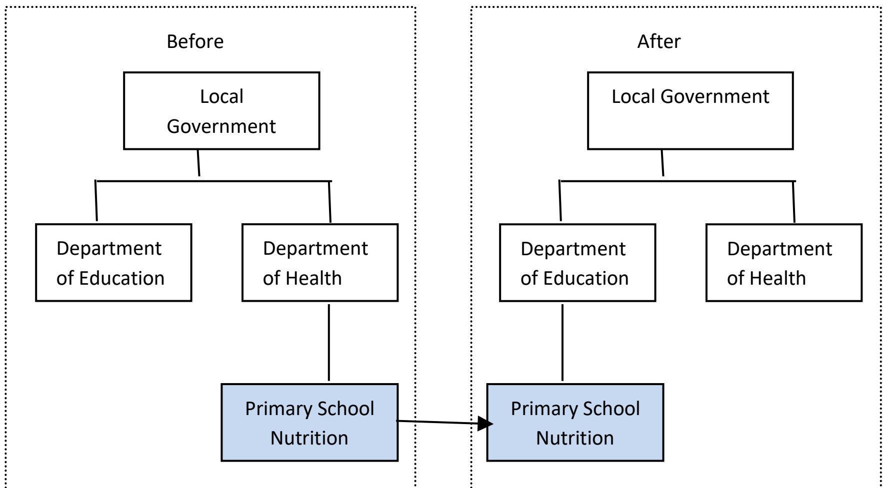
IE50. The creation of the Gas Supply and Waste Recycle Department is an entity combination under common control. In determining whether this should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.

IE51. The Gas Supply and Waste Recycle Department has a newly formed governing body, unrelated to the governing bodies of the Waste Recycle Department and the Gas Supply Department. Neither the Waste Recycle Department nor the Gas Supply Department has gained power over the operations of the other department. Neither do they have exposure, nor rights, to variable benefits from any involvement with the operations of the other department.

IE52. Neither of the Waste Recycle Department nor the Gas Supply Department has gained control over the Gas Supply and Waste Recycle Department as a result of the entity combination. Consequently the combination is classified as an amalgamation.

Scenario 5: Transfer of Operations Under Common Control

IE53. The following diagram illustrates the transfer of operations between two entities that are under common control.



IE54. In this scenario, an entity combination occurs in which the Primary School Nutrition operation is transferred from the Local Government's Department of Health to its Department of Education. Both departments are controlled by the Local Government prior to and after the combination.

IE55. As the Local Government controls the same operations both before and after the entity combination, the Local Government does not report a combination in its consolidated financial statements. The combination is reported by the Department of Education.

IE56. The transfer of the Primary School Nutrition operation is an entity combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question the Department of Education considers is whether one of the parties to the combination has gained control of operations as a result of the combination.

IE57. In this scenario, the Department of Education gains:

(a) Power over the Primary School Nutrition operation;

(b) Exposure, or rights, to variable benefits from its involvement

with that operation; and

(c) The ability to use its power over that operation to affect the nature or amount of the benefits from its involvement with that operation.

IE58. The Department of Education concludes that, as a result of the entity combination, it has gained control of the Primary School Nutrition operation. The Department of Education considers the guidance in paragraphs 9–14 and AG19–AG50 of ASLB 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE59. In considering the economic substance of the entity combination, the Department of Education notes that it obtains access to economic benefits or service potential that are similar to those that could have been obtained in a voluntary transaction; this may suggest that the economic substance of the combination is that of an acquisition.

IE60. In considering the indicators relating to consideration, the Department of Education notes that the entity combination does not include the payment of consideration because the combination took place under common control, and the Local Government, the controlling entity, did not specify any consideration in the terms of the combination. Consequently, although the absence of consideration may suggest that the economic substance of the combination is that of an amalgamation, this is not of itself conclusive and other factors also need to be taken into account.

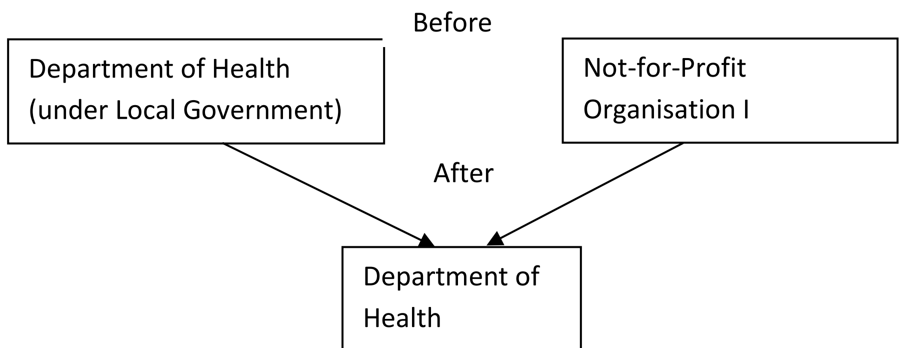
IE61. In considering the indicators relating to the decision-making process, the Department of Education notes that the entity combination takes place under common control. The combination was directed by the Local Government. This provides evidence that the ultimate decision as to whether the combination took place, and the terms of the combination, are determined by the Local Government, the controlling entity. This provides evidence that the economic substance of the combination is that of an amalgamation.

IE62. Taking these factors together, the Department of Education considers that the entity combination should be classified as an

amalgamation. In coming to this decision, the fact that the entity combination takes place under common control is considered to be the most significant factor in determining the economic substance of the combination.

Scenario 6: Combination of an Entity with a Not-For-Profit Organisation

IE63. The following diagram illustrates the combination of an entity with a not-for-profit organisation providing similar services.



IE64. In this scenario, an entity combination occurs in which Not-for-Profit Organisation I, a charity which provides paramedic services, voluntarily agrees to combine with the Department of Health (that comes under Local Government) in order to improve the delivery of services to the public. The operations of Not-for-Profit Organisation I are integrated with similar operations provided by the Department of Health. Prior to the combination, the Department of Health has provided funding for Not-for-Profit Organisation I. The Department of Health meets the cost of transferring the title to the assets and liabilities of Not-for-Profit Organisation I incurred by the trustees of the charity.

IE65. The combination of the Department of Health and Not-for-Profit Organisation I is an entity combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question the Department of Health considers is whether it has gained control of operations as a result of the combination.

IE66. In this scenario, the Department of Health gains:

(a) Power over Not-for-Profit Organisation I and its operations;

(b) Exposure, or rights, to variable benefits from its involvement with those operations; and

(c) The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.

IE67. The Department of Health concludes that, as a result of the entity combination, it has gained control of Not-for-Profit Organisation I. The Department of Health considers the guidance in paragraphs 9–14 and AG19– AG50 of ASLB 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE68. In considering the economic substance of the entity combination, the Department of Health notes that the combination does not result in a controlling entity/controlled entity relationship between the Department and Not-for-Profit Organisation I. This is consistent with both an amalgamation and an acquisition.

IE69. In considering the indicators relating to consideration, the Department of Health notes that the entity combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. Although the Department of Health makes a payment to the trustees, this is to compensate them for costs incurred in effecting the combination, not to compensate them for giving up their entitlement to the net assets of Not-for-Profit Organisation I. Although Not-for-Profit Organisation I has a Board of Trustees, these individuals are not entitled to the net assets of the operation. This means there is no party with an entitlement to the net assets of Not-for-Profit Organisation I (i.e., there are no former owners of Not-for-Profit Organisation I with quantifiable ownership interests). This suggests that the economic substance of the combination is that of an amalgamation. In this scenario, this is confirmed by the fact that the purpose of the combination is to improve the delivery of services to the public.

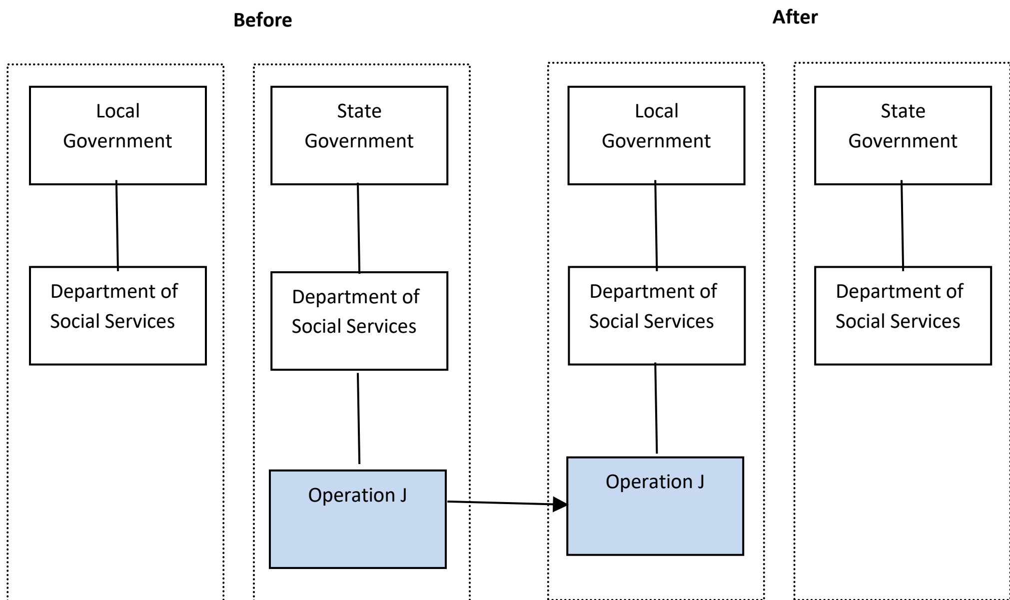
IE70. In considering the indicators relating to the decision-making process, the Department of Health notes that the entity combination was a voluntary combination. Consequently, these indicators do not provide any evidence to

suggest that the economic substance of the combination is that of an amalgamation.

IE71. Taking these factors together, the Department of Health considers that the entity combination should be classified as an amalgamation. In coming to this decision, the Department of Health considers the absence of consideration because there is no party with an entitlement to the net assets of an operation to be the most significant factor in determining the economic substance of the combination. In this scenario, this view is reinforced by the fact that that Board of Trustees is voluntarily giving up control over the operations to improve the delivery of services to the public.

Scenario 7: Transfer of an Operation Between Levels of Government

IE72. The following diagram illustrates the transfer of an operation between levels of government.



IE73. In this scenario, State Government adopts a policy of devolving responsibility for some social services to the Local Government. Consequently, it proposes transferring Operation J, which provides residential care services, from State Government's Department of Social Services to the Local Government's Department of Social Services. The Local Government supports the policy and agrees to accept Operation J. Operation J has net assets of Rs.1,000. There is no transfer of consideration by the Local Government to the State Government. However, the transfer agreement imposes an obligation on the Local Government to continue to provide the residential care services for a minimum of 10 years. Operation J does not recover all its costs from charges; the Local Government therefore assumes the responsibility for providing resources to meet the shortfall. Following the transfer, the Local Government operates Operation J as a stand-alone entity (i.e., there is a controlling entity/controlled entity relationship between the Local Government and Operation J), although it plans to integrate the operation with its other operations at a later date, which would remove the controlling entity/controlled entity relationship.

IE74. The transfer of Operation J is an entity combination that will need

to be reported in both the Local Government's financial statements and those of the Local Government's Department of Social Services. As the analysis required will be the same for both entities, this example uses the term Local Government to refer to both entities.

IE75. In determining whether this should be classified as an amalgamation or an acquisition, the first question the Local Government considers is whether it has gained control of operations as a result of the combination.

IE76. In this scenario, the Local Government gains:

(a) Power over Operation J;

(b) Exposure, or rights, to variable benefits from its involvement with Operation J; and

(c) The ability to use its power over Operation J to affect the nature or amount of the benefits from its involvement with the operation.

IE77. The Local Government concludes that, as a result of the entity combination, it has gained control of Operation J. The Local Government considers the guidance in paragraphs 9–14 and AG19–AG50 of ASLB 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE78. In considering the economic substance of the entity combination, the Local Government notes that the combination results in a controlling entity/controlled entity relationship between the Local Government and Operation J. This is inconsistent with the economic substance of an amalgamation.

IE79. In considering the indicators relating to consideration, the Local Government notes that the entity combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. However, the transfer agreement requires the Local Government to continue to provide the services. As Operation J does not recover all its costs from charges, the Local Government will need to provide the necessary resources to cover the shortfall. The Local Government considers that the cost of providing services for the agreed 10 years period is

likely to be approximately equal to the value of the net assets received. It therefore considers that a market participant would estimate the fair value of Operation J (with the obligation to provide services for 10 years) to be zero. Although no consideration is transferred, this reflects the fair value of the combination. The Local Government concludes that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE80. In considering the indicators relating to the decision-making process, the Local Government notes that the entity combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE81. Taking these factors together, the Local Government concludes that there is no evidence that economic substance of the combination is that of an amalgamation, and that the entity combination should, therefore, be classified as an acquisition.

Scenario 7: Variation

IE82. In scenario 7, the Local Government considers that a market participant would estimate the fair value of Operation J (with the obligation to provide services for 10 years) to be zero. This is the reason that no consideration is paid. In this variation, Operation J is assumed to cover its costs from charges. Consequently, a market participant would estimate the fair value of Operation J (with the obligation to provide services for 10 years) to be greater than zero.

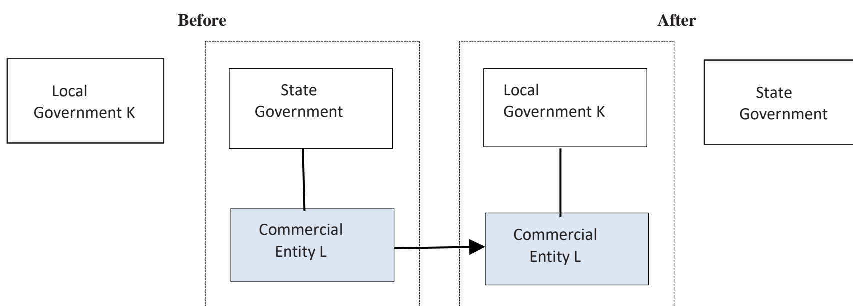
IE83. In these circumstances, the fact that the combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation may provide evidence that the economic substance of the combination is that of an amalgamation.

IE84. In determining the classification of the entity combination, the Local Government considers which factor or factors are the most significant. The Local Government considers the fact that

it has gained control of Operation J and the fact that the combination does not involve the integration of its operations and those of Operation J to be the most significant factors in determining the economic substance of the combination. This suggests that the combination should be classified as an acquisition. The indicators relating to the decision-making process support this classification; only the indicators relating to consideration suggest that the economic substance of the combination may be an amalgamation. The Local Government therefore classifies the combination as an acquisition.

Scenario 8: Transfer of a Commercial Entity between Levels of Government

IE85. The following diagram illustrates the transfer of a commercial entity between levels of government.



IE86. In this scenario, the State Government agrees to transfer Commercial Entity L to Local Government K. Local Government K pays consideration to the State Government in respect of the transfer. Following the combination, Local Government K operates Commercial Entity L as an arms-length, stand-alone entity.

IE87. The transfer of Commercial Entity L is an entity combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question Local Government K considers is whether it has gained control of operations as a result of the combination.

IE88. In this scenario, Local Government K gains:

(a) Power over Commercial Entity L and its operations;

(b) Exposure, or rights, to variable benefits from its involvement with those operations; and

(c) The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.

IE89. Local Government K concludes that, as a result of the entity combination, it has gained control of Commercial Entity L. Local Government K considers the guidance in paragraphs 9–14 and AG19– AG50 of ASLB 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE90. In considering the economic substance of the entity combination, Local Government K notes that the combination results in a controlling entity/controlled entity relationship between the Local Government and Commercial Entity L. This is inconsistent with the economic substance of an amalgamation. Local Government K also notes that the combination has commercial substance, which is suggestive of an acquisition.

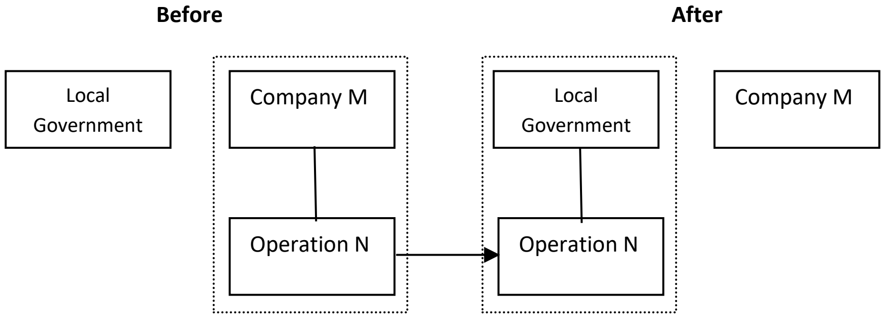
IE91. In considering the indicators relating to consideration, Local Government K notes that the entity combination includes the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. Local Government K concludes that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE92. In considering the indicators relating to the decision-making process, Local Government K notes that the entity combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE93. Taking these factors together, Local Government K concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the entity combination should, therefore, be classified as an acquisition.

Scenario 9: Purchase of a Private Sector Operation

IE94. The following diagram illustrates the purchase of a private sector operation by an entity.



IE95. In this scenario, Local Government purchases Operation N from Company M. Local Government pays the market value of Operation N, and Company M acts voluntarily. Following the purchase, Operation N is managed as an arms-length, stand-alone entity.

IE96. The purchase of Operation N is an entity combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question Local Government considers is whether it has gained control of operations as a result of the combination.

IE97. In this scenario, Local Government gains:

(a) Power over Operation N;

(b) Exposure, or rights, to variable benefits from its involvement with Operation N; and

(c) The ability to use its power over Operation N to affect the nature or amount of the benefits from its involvement with that operation.

IE98. Local Government concludes that, as a result of the entity combination, it has gained control of Operation N. Local Government considers the guidance in paragraphs 9–14 and AG19–AG50 of ASLB 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE99. In considering the economic substance of the entity combination, Local Government notes that the combination results in a controlling entity/ controlled entity relationship between Local Government and Operation N. This is inconsistent with the economic substance of an amalgamation. Local Government also notes that the combination has commercial substance, which is suggestive of an acquisition.

IE100. In considering the indicators relating to consideration, Local Government notes that the entity combination includes the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. Local Government concludes that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE101. In considering the indicators relating to the decision-making process, Local Government notes that the entity combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE102. Taking these factors together, Local Government concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the entity combination should, therefore, be classified as an acquisition.

Scenario 9: Variation

IE103. In scenario 9, Company M enters into the transaction voluntarily. In this variation, Local Government acquires Operation N through a compulsory purchase, e.g., for construction of metro line. The purchase is still effected at the market value of Operation N.

IE104. The change from a voluntary transaction to a compulsory purchase does not affect the assessments of control or the indicators related to consideration.

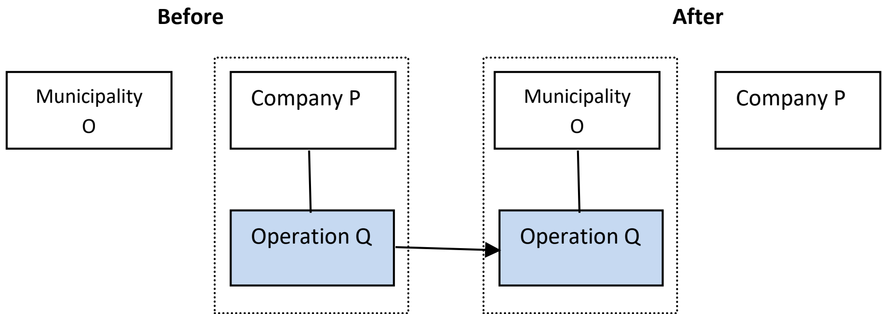
IE105. In considering the indicators relating to the decision-making process, Local Government notes that Company M does not act voluntarily. The fact that Local Government (a party to the combination) is able to impose the entity combination on

Company M provides evidence that the economic substance of the combination is that of an acquisition.

IE106. Consequently, Local Government classifies the entity combination as an acquisition.

Scenario 10: Bargain Purchase

IE107. The following diagram illustrates a bargain purchase by an entity.



IE108. In this scenario, Municipality O purchases Operation Q from Company P in a bargain purchase. Company P is seeking to sell Operation Q quickly to release cash for its other operations, and is willing to accept a price below the market value of Operation Q for an early sale. In entering into the bargain purchase, Company P acts voluntarily. Following the purchase, Operation Q is managed as an arms-length, stand-alone entity by Municipality O.

IE109. The bargain purchase of Operation Q is an entity combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question Municipality O considers is whether it has gained control of operations as a result of the combination.

IE110. In this scenario, Municipality O gains:

(a) Power over Operation Q;

(b) Exposure, or rights, to variable benefits from its involvement with Operation Q; and

(c) The ability to use its power over Operation Q to affect the

nature or amount of the benefits from its involvement with that operation.

IE111. Municipality O concludes that, as a result of the entity combination, it has gained control of Operation Q. Municipality O considers the guidance in paragraphs 9–14 and AG19–AG50 of ASLB 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE112. In considering the economic substance of the entity combination, Municipality O notes that the combination results in a controlling entity/ controlled entity relationship between Municipality O and Operation Q. This is inconsistent with the economic substance of an amalgamation. Municipality O also notes that the combination has commercial substance (even though the price paid was below the market price of Operation Q), which is suggestive of an acquisition.

IE113. In considering the indicators relating to consideration, Municipality O notes that the entity combination includes the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation, even though that price was below market value. Company P voluntarily accepted a lower price for a quick sale, and the purpose of the consideration paid was to provide Company P with the level of compensation for giving up its entitlement to the net assets of Operation Q that it was willing to accept. Municipality O concludes that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE114. In considering the indicators relating to the decision-making process, Municipality O notes that the entity combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE115. Taking these factors together, Municipality O concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the entity combination should, therefore, be classified as an acquisition.

Scenario 10: Variation

IE116. In scenario 10, Company P enters into the transaction voluntarily. In this variation, Municipality O seizes Operation Q through a compulsory purchase. The purchase is still effected at a price below the market value of Operation Q. Company P would not have sold Operation Q for a price below market value voluntarily.

IE117. The change from a voluntary transaction to a compulsory purchase does not affect the assessment of control.

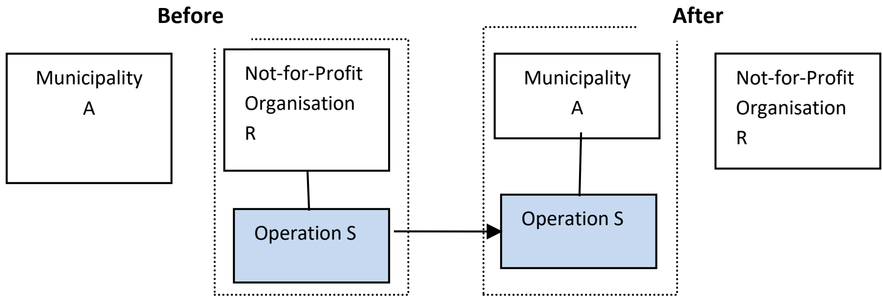
IE118. In considering the indicators relating to consideration, Municipality O notes that the entity combination includes consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. However, the level of compensation is less than Company P would have accepted voluntarily. Consequently, these indicators provide only weak evidence that the economic substance of the combination is that of an acquisition, and greater reliance is placed on other factors.

IE119. In considering the indicators relating to the decision-making process, Municipality O notes that Company P does not act voluntarily. The fact that Municipality O (a party to the combination) is able to impose the entity combination on Company P provides evidence that the economic substance of the combination is that of an acquisition.

IE120. Taking all the factors into account, Municipality O classifies the entity combination as an acquisition.

Scenario 11: Donated Operations

IE121. The following diagram illustrates the receipt of a donated operation by an entity.



IE122. In this scenario, Not-for-Profit Organisation R, a charity providing education services, voluntarily transfers Operation S, a school, to the Municipality A at no cost. Not-for-Profit Organisation R does this because it considers that this will result in improved services to the public, and enable it to meet its objectives.

IE123. The donation of Operation S is an entity combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question the Municipality A considers is whether it has gained control of operations as a result of the combination.

IE124. In this scenario, the Municipality A gains:

(a) Power over Operation S;
(b) Exposure, or rights, to variable benefits from its involvement with Operation S; and
(c) The ability to use its power over Operation S to affect the nature or amount of the benefits from its involvement with that operation.

IE125. The Municipality A concludes that, as a result of the entity combination, it has gained control of Operation S. The Municipality A considers the guidance in paragraphs 9–14 and AG19–AG50 of ASLB 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE126. In considering the economic substance of the entity combination, the Municipality A notes that the combination has commercial substance (even though no price was paid for Operation S), which

is suggestive of an acquisition.

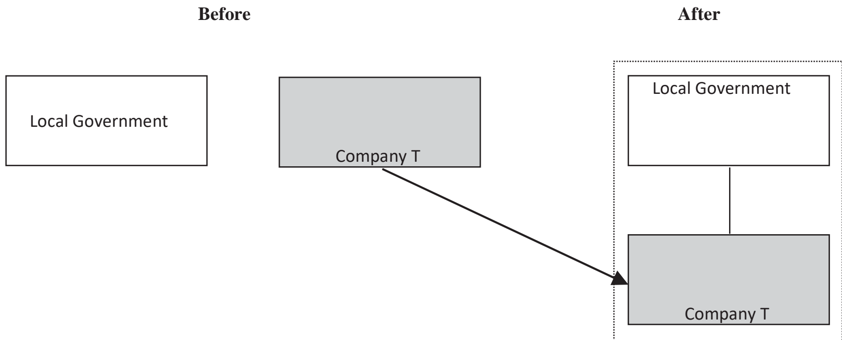
IE127. In considering the indicators relating to consideration, the Municipality A notes that the entity combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. However, the reason for this is that Not-for-Profit Organisation R voluntarily surrendered those rights. The situation is similar to that of a bargain purchase. In a bargain purchase, a seller may be willing to accept a price below market value where this meets their needs, for example in enabling a quick sale. With a donated operation, the former owner is willing to transfer the operation for no consideration to their preferred counterparty. In this scenario, Not-for-Profit Organisation R is willing to transfer Operation S to the Municipality A because this will provide improved services to the public. Consequently, the Municipality A concludes that the indicators of consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE128. In considering the indicators relating to the decision-making process, the Municipality A notes that the entity combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE129. Taking these factors together, the Municipality A concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the entity combination should, therefore, be classified as an acquisition.

Scenario 12: Statutory Acquisition of a Private Sector Entity–Forced Seizure

IE130. The following diagram illustrates the statutory acquisition of a private sector entity by an entity by means of a forced seizure.



IE131. In this scenario, Local Government statutory acquires Company T through legislation. Local Government does not pay any consideration to the shareholders of Company T. Following the purchase, Company T is managed as an arms-length, stand-alone entity.

IE132. The statutory acquisition of Company T is an entity combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question Local Government considers is whether it has gained control of operations as a result of the combination.

IE133. In this scenario, Local Government gains:

(a) Power over Company T;
(b) Exposure, or rights, to variable benefits from its involvement with Company T; and
(c) The ability to use its power over Company T to affect the nature or amount of the benefits from its involvement with Company T.

IE134. Local Government concludes that, as a result of the entity combination, it has gained control of Company T. Local Government considers the guidance in paragraphs 9–14 and AG19–AG50 of ASLB 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE135. In considering the economic substance of the entity combination, Local Government notes that the combination

results in a controlling entity/ controlled entity relationship between Local Government and Company T. This is inconsistent with the economic substance of an amalgamation. Local Government also notes that, by depriving the former shareholders of their rights to Company T, the combination has commercial substance, which is suggestive of an acquisition.

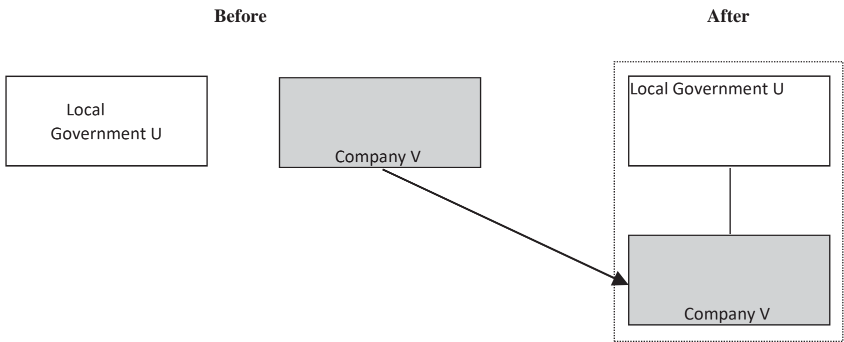
IE136. In considering the indicators relating to consideration, Local Government notes that the entity combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. However, the former shareholders of Company T have had their entitlements extinguished through compulsion, which provides evidence that the economic substance of the combination is that of an acquisition. Local Government concludes that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE137. In considering the indicators relating to the decision-making process, Local Government notes that Company T does not act voluntarily. The fact that Local Government (a party to the combination) is able to impose the entity combination on Company T provides evidence that the economic substance of the combination is that of an acquisition.

IE138. Taking these factors together, Local Government concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the entity combination should, therefore, be classified as an acquisition.

Scenario 13: Statutory Acquisition of a Private Sector Entity–Bailout

IE139. The following diagram illustrates the statutory acquisition of a private sector entity by an entity by means of a bailout.



IE140. In this scenario, Local Government U statutory acquires Company V through legislation as a result of a bailout. Prior to the statutory acquisition, Company V was in financial distress. Local Government U does not pay any consideration to the shareholders of Company V but does assume Company V's net liabilities. Following the purchase, Company V is managed as an arms-length, stand-alone entity.

IE141. The statutory acquisition of Company V is an entity combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question Local Government U considers is whether it has gained control of operations as a result of the combination.

IE142. In this scenario, Local Government U gains:

(a) Power over Company V;

(b) Exposure, or rights, to variable benefits from its involvement with Company V; and

(c) The ability to use its power over Company V to affect the nature or amount of the benefits from its involvement with Company V.

IE143. Local Government U concludes that, as a result of the entity combination, it has gained control of Company V. Local Government U considers the guidance in paragraphs 9–14 and AG19–AG50 of ASLB 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE144. In considering the economic substance of the entity

combination, Local Government U notes that the combination results in a controlling entity/controlled entity relationship between Local Government U and Company V. This is inconsistent with the economic substance of an amalgamation. Local Government U also notes that, by assuming the net liabilities of Company V, the combination has commercial substance, which is suggestive of an acquisition.

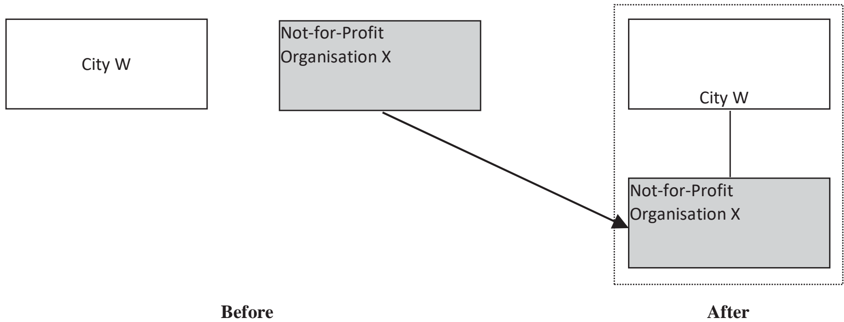
IE145. In considering the indicators relating to consideration, Local Government U notes that the entity combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. However, Company V has net liabilities that are assumed by Local Government U as part of the combination. The lack of consideration reflects the fair value of Company V rather than suggesting that the economic substance of the combination is that of an amalgamation. Local Government U concludes that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE146. In considering the indicators relating to the decision-making process, Local Government U notes that Company V does not act voluntarily. The fact that Local Government U (a party to the combination) is able to impose the entity combination on Company V provides evidence that the economic substance of the combination is that of an acquisition.

IE147. Taking these factors together, Local Government U concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the entity combination should, therefore, be classified as an acquisition.

Scenario 14: Statutory Acquisition *of a Not-For-Profit Organisation–Bailout*

IE148. The following diagram illustrates the statutory acquisition of a not-for-profit organisation by an entity by means of a bailout.



IE149. In this scenario, City W statutory acquires Not-for-Profit Organisation X (a charity) as a result of a voluntary bailout. Prior to the statutory acquisition, Not-for-Profit Organisation X was in financial distress and approached City W for support. City W assumes Not-for-Profit Organisation X's net liabilities. Following the purchase, Not-for-Profit Organisation X is managed as an arms-length, stand- alone entity.

IE150. The statutory acquisition of Not-for-Profit Organisation X is an entity combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question City W considers is whether it has gained control of operations as a result of the combination.

IE151. In this scenario, City W gains:

(a) Power over Not-for-Profit Organisation X;

(b) Exposure, or rights, to variable benefits from its involvement with Not-for-Profit Organisation X; and

(c) The ability to use its power over Not-for-Profit Organisation X to affect the nature or amount of the benefits from its involvement with Not-for-Profit Organisation X.

IE152. City W concludes that, as a result of the entity combination, it has gained control of Not-for-Profit Organisation X. City W considers the guidance in paragraphs 9–14 and AG19–AG50 of ASLB 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE153. In considering the economic substance of the entity combination, City W notes that the combination results in a controlling entity/controlled entity relationship between City W and Not-for-Profit Organisation X. This is inconsistent with the economic substance of an amalgamation. City W also notes that, by assuming the net liabilities of Not-for-Profit Organisation X, the combination has commercial substance, which is suggestive of an acquisition.

IE154. In considering the indicators relating to consideration, City W notes that the entity combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. This is because there is no party with an entitlement to the net assets of Not-for-Profit Organisation X (i.e., there is no former owner) as the trustees have no entitlement to the net assets. This would usually provide evidence that the economic substance of the combination is that of an amalgamation. However, in this scenario Not-for-Profit Organisation X has net liabilities that are assumed by City W as part of the combination. By assuming the net liabilities, City W relieves the trustees of Not-for- Profit Organisation X of the responsibility for settling the liabilities, which is analogous to paying consideration. City W concludes, therefore, that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE155. In considering the indicators relating to the decision-making process, City W notes that Not-for-Profit Organisation X voluntarily initiated the combination. City W concludes that the indicators relating to decision- making do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE156. Taking these factors together, City W concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the entity combination should, therefore, be classified as an acquisition.

Accounting for Amalgamations

Eliminating Transactions between the Combining Operations - Loans

Illustrating the Consequences of Applying Paragraphs 22 and AG51–AG52 of ASLB 40

IE157. The following example illustrates the process for eliminating a loan between two combining operations not under common control.

IE158. On 30 June 20X5 Resulting Entity (RE) is formed by an amalgamation of two municipalities, Combining Operation A (COA) and Combining Operation B (COB). Four years previously, COA had provided COB with a ten year, fixed interest rate loan of Rs. 250. Interest on the loan is payable annually, with the principal repayable on maturity.

IE159. COB has recently experienced financial difficulties, and at the amalgamation date was in arrears on making the interest payments. The carrying amount of the financial liability in its financial statements at the amalgamation date is Rs.260.

IE160. Because of the arrears and the fact that COB was experiencing financial difficulties, COA had impaired the loan. The carrying amount of the financial asset (the loan) in its financial statements at the amalgamation date is Rs.200.

IE161. At the amalgamation date, RE eliminates the financial asset received from COA and the financial liability assumed from COB and credits components of net assets/equity with Rs.60, the difference between the carrying amounts of the financial asset and the financial liability associated with the loan.

Eliminating Transactions between the Combining Operations - Transfers

Illustrating the Consequences of Applying Paragraphs 22 and AG51–AG52 of ASLB 40

IE162. The following example illustrates the process for eliminating a transfer between two combining operations not under common control.

IE163. On 30 June 20X9, Resulting Entity (RE) is formed by an amalgamation of two government agencies, Combining Operation A (COA) and Combining Operation B (COB). On 1 January 20X9, COA had provided COB with a grant of Rs.700 to be used in the provision of an agreed number of training courses.

IE164. The grant was subject to a condition that the grant would be returned proportionately to the number of training courses not delivered. At the amalgamation date, COB had delivered half of the agreed number of courses, and recognised a liability of Rs.350 in respect of its performance obligation, in accordance with ASLB 23, '*Revenue from Non-Exchange Transactions (Taxes and Transfers)'*. Based on past experience, COA considered that COB was more likely than not to deliver the training courses. It was therefore not probable that there would be a flow of resources to COA, and COA did not recognise an asset in respect of the grant, but accounted for the full Rs.700 as an expense.

IE165. At the amalgamation date, the transaction is eliminated. There is no longer an obligation to an external party. The resulting entity does not recognise a liability for the Rs. 350, but instead recognises this amount in net assets/ equity.

Adjusting the Carrying Amounts of the Identifiable Assets and Liabilities of the Combining Operations to Conform to the Resulting Entity's Accounting Policies in an Amalgamation

Illustrating the Consequences of Applying Paragraphs 26–27 and 36 of ASLB 40

IE166. The following example illustrates the process for adjusting the carrying amounts of the identifiable assets and liabilities of the combining operations to conform to the resulting entity's accounting policies in an amalgamation under common control.

IE167. On 1 October 20X5 RE is formed by an amalgamation of two local government departments, COA and COB. COA has previously adopted an accounting policy of measuring property, plant and equipment using the cost model in ASLB 17, '*Property, Plant and Equipment'*. COB has previously adopted an accounting policy of measuring property, plant and

equipment using the revaluation model in ASLB 17.

IE168. RE adopts an accounting policy of measuring property, plant and equipment using the revaluation model. RE seeks an independent valuation for the items of property, plant and equipment previously controlled by COA.

IE169. On receiving the independent valuation for the items of property, plant and equipment previously controlled by COA, RE adjusts the carrying amounts of the items of property, plant and equipment as follows, with the corresponding entry being made to components of net assets/equity:

Class of Asset	**Carrying Amount** (Rs.)	**Valuation** (Rs.)	**Adjustment** (Rs.)
Land	17,623	18,410	787
Buildings	35,662	37,140	1,478
Vehicles	1,723	1,605	(118)

IE170. RE also reviews the carrying amounts of the items of property, plant and equipment previously controlled by COB to ensure the amounts are up to date as at 1 October 20X5. The review confirms the carrying amounts of the items of property, plant and equipment previously controlled by COB are up to date and that no adjustment is required.

IE171. RE recognises the items of property, plant and equipment previously controlled by COB at their carrying amounts. In accordance with paragraph 67 of ASLB 17, RE will review the residual values and useful lives of the plant and equipment previously controlled by both COA and COB at least at each annual reporting date. If expectations differ from previous estimates, RE will account for these changes as changes in accounting estimates, in accordance with ASLB 3, '*Accounting Policies, Changes in Accounting Estimates and Errors*'.

IE172-176. [Refer to Appendix 1]

Recognising and Measuring Components of Net Assets/Equity Arising as a Result of an Amalgamation

Illustrating the Consequences of Applying Paragraphs 37–39 of ASLB 40

IE177. The following example illustrates the accounting for recognising and measuring components of net assets/equity in an amalgamation.

IE178. On 1 June 20X4, a new municipality RE is formed by the amalgamation of operations COA and COB relating to two geographical areas of other municipalities, not previously under common control.

IE179. COB has previously performed services for COA for which it was to be paid Rs. 750. Payment was outstanding at the amalgamation date. This transaction formed part of the carrying amount of financial liabilities for COA and part of the carrying amount of financial assets for COB.

IE180. COA has previously adopted an accounting policy of measuring property, plant and equipment using the cost model. COB has previously adopted an accounting policy of measuring property, plant and equipment using the revaluation model. RE has adopted an accounting policy of measuring property, plant and equipment using the revaluation model. RE obtains an independent valuation for the items of property, plant and equipment previously controlled by COA. As a result, it increases its carrying amount for those items of the property, plant and equipment by Rs. 5,750 and makes the corresponding adjustment to components of net assets/equity.

IE181. The carrying amounts of the assets, liabilities and components of net assets/equity transferred are summarised below. Adjustments to eliminate transactions between COA and COB (see paragraph 22), and to conform the carrying amounts to the resulting entity›s accounting policies are also shown.

	COA (Rs.)	COB (Rs.)	Elimination Adjustments (Rs.)	Accounting Policy Adjustments (Rs.)	RE Opening Balance (Rs.)

Financial Assets	11,248	17,311	(750)		27,809
Inventory	1,072	532			1,604
Property, plant and equipment	5,663	12,171		5,750	23,584
Intangible assets	0	137			137
Financial liabilities	(18,798)	(20,553)	750		(38,601)
Total net assets/ (liabilities)	(815)	9,598		5,750	14,533
Revaluation surplus	0	6,939		5,750	12,689
Accumulated surpluses or deficits	(815)	2,659			1,844
Total net assets/equity	(815)	9,598	0	5,750	14,533

IE182. In accordance with paragraphs 37–39 of ASLB 40, RE may present net assets/ equity as either a single opening balance of Rs.14,533 or as the separate components shown above.

IE183. The other municipalities that, prior to the amalgamation, controlled COA and COB would derecognise the assets, liabilities and components of net assets/ equity transferred to RE in accordance with other ASLBs.

Measurement Period in an Amalgamation

Illustrating the Consequences of Applying Paragraphs 40–44 of ASLB 40.

IE184. If the initial accounting for an amalgamation is not complete at the end of the financial reporting period in which the amalgamation occurs, paragraph 40 of ASLB 40 requires the resulting entity to recognise in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the resulting entity recognises adjustments to the provisional amounts needed to reflect new information obtained about facts and

circumstances that existed as of the amalgamation date and, if known, would have affected the measurement of the amounts recognised as of that date. Paragraph 43 of ASLB 40 requires the resulting entity to recognise such adjustments as if the accounting for the amalgamation had been completed at the amalgamation date. Measurement period adjustments are not included in surplus or deficit.

IE185. Suppose that RE is formed by the amalgamation of COA and COB (two municipalities that were not under common control prior to the amalgamation) on 30 November 20X3. Prior to the amalgamation, COA had an accounting policy of using the revaluation model for measuring land and buildings, whereas COB's accounting policy was to measure land and buildings using the cost model. RE adopts an accounting policy of measuring land and buildings using the revaluation model, and seeks an independent valuation for the land and buildings previously controlled by COB. This valuation was not complete by the time RE authorised for issue its financial statements for the year ended 31 December 20X3. In its 20X3 annual financial statements, RE recognised provisional values for the land and buildings of Rs. 150,000 and Rs. 275,000 respectively. At the amalgamation date, the buildings had a remaining useful life of fifteen years. The land had an indefinite life. Four months after the amalgamation date, RE received the independent valuation, which estimated the amalgamation-date value of the land as Rs. 160,000 and the amalgamation-date value of the buildings as Rs. 365,000.

IE186. In its financial statements for the year ended 31 December 20X4, RE retrospectively adjusts the 20X3 prior year information as follows:

(a) The carrying amount of the land as of 31 December 20X3 is increased by Rs.10,000. As the land has an indefinite life, no depreciation is charged.

(b) The carrying amount of the buildings as of 31 December 20X3 is increased by Rs. 89,500. That adjustment is measured as the valuation adjustment at the amalgamation date of Rs. 90,000 less the additional

depreciation that would have been recognised if the asset's value at the amalgamation date had been recognised from that date (Rs.500 for one months' depreciation).

(c) An adjustment of Rs. 100,000 is recognised in net assets/equity as of 31 December 20X3.

(d) Depreciation expense for 20X3 is increased by Rs.500.

IE187. In accordance with paragraph 56 of ASLB 40, RE discloses:

(a) In its 20X3 financial statements, that the initial accounting for the amalgamation has not been completed because the valuation of land and buildings previously controlled by COB has not yet been received.

(b) In its 20X4 financial statements, the amounts and explanations of the adjustments to the provisional values recognised during the current reporting period. Therefore, RE discloses that the 20X3 comparative information is adjusted retrospectively to increase the value of the land and buildings by Rs. 99,500 (Rs. 100,000 at the amalgamation date), an increase in depreciation expense of Rs. 500 and an increase in net assets/equity of Rs. 100,000.

Subsequent Measurement of a Transfer Received by a Combining Operation on the Basis of Criteria that May Change as a Result of an Amalgamation

Illustrating the Consequences of Applying the Requirements in Paragraphs 48 and AG61–AG63 of ASLB 40.

IE188. The following example illustrates the subsequent accounting for a transfer received by a combining operation on the basis of criteria that may change as a result of an amalgamation.

IE189. On 1 January 20X3, Central government provides an annual grant to those municipalities where the average household income is below a threshold. On 1 June 20X3, RE, a new municipality, is formed by the amalgamation of two existing municipalities, COA and COB. COA had previously received a grant of Rs.1,000, based on its average household income. COB has received no grant as its

average household income was above the threshold.

IE190. Following the amalgamation on 1 June 20X3, the average household income of RE is above the threshold that the Central government had set when allocating grants.

IE191. On 1 July 20X3, the Central government requires RE to repay a portion (Rs.200) of the grant previously paid to COA. RE recognises a liability and an expense of Rs.200 on 1 July 20X3.

Disclosure Requirements Relating to Amalgamations

Illustrating the Consequences of Applying the Disclosure Requirements in Paragraphs 53–57 of ASLB 40.

IE192. The following example illustrates some of the disclosure requirements relating to amalgamations of ASLB 40; it is not based on an actual transaction. The example assumes that RE is a newly created municipality formed by amalgamating the former municipalities COA and COB. The illustration presents the disclosures in a tabular format that refers to the specific disclosure requirements illustrated. An actual footnote might present many of the disclosures illustrated in a simple narrative format.

Paragraph reference	
54(a)–(c)	On 30 June 20X2 RE was formed by an amalgamation of the former municipalities COA and COB. Neither COA nor COB gained control of RE in the amalgamation. The amalgamation was mutually agreed by COA and COB, and enacted by the Central Government through legislation. The amalgamation aims to reduce costs through economies of scale, and to provide improved services to residents.
54(d)	**Amounts recognised for each major class of assets and liabilities transferred as at 30 June 20X2**
	Rs.

Financial assets	1,701
Inventory	5
Property, plant and equipment	74,656
Intangible assets	42
Financial liabilities	(2,001)
Total net assets	74,403

54(e) The following adjustments have been made to the carrying amounts of assets and liabilities recorded by COA and COB as at 30 June 20X2 prior to the amalgamation:

Paragraph reference

		Original Amount (Rs.)	**Adjustm ent** (Rs.)	**Revised Amount** (Rs.)
54(e)(i)	Restatement of financial assets recorded by COA to eliminate transactions with COB	822 (1,093)	(25) 25	797 (1,068)
54(e)(i)	Restatement of financial liabilities recorded by COB to eliminate transactions with COA	12,116	17,954	30,070
54(e)(ii)	Restatement of property plant and equipment recorded by COA to measure the items using the revaluation model			

54(f) **Amounts recognised in Net assets/equity as at 30 June 20X2**

	COA (Rs.)	**COB** (Rs.)	**Adjust-ment** (Rs.)	**RE** (Rs.)
Revaluation surplus	0	18,332	17,954	36,286
Accumulated surpluses or deficits	12,047	26,070	0	38,117
Total net assets/equity	12,047	44,402	17,954	74,403

Paragraph reference

54(h) At the time these financial statements were authorised for issue, the last reporting date for COA and COB was 31 December 20X1. The revenue and expense, and surplus or deficit for COA and COB from 1 January 20X2 to the amalgamation date (30 June 20X2), and the amounts reported by COA and COB for each major class of assets and liabilities, and for components of net assets/equity, is shown below:

Paragraph reference		**COA** (Rs.)	**COB** (Rs.)
54(h)(i)	**Revenue**		
	Property taxes	45,213	70,369
	Revenue from exchange transactions	2,681	25,377
	Transfers from other government entities	32,615	19,345
	Total revenue	80,509	115,091
54(h)(i)	**Expenses**		
	Wages, salaries and employee benefits	(51,263)	(68,549)
	Grants and other transfer payments	(18,611)	(26,445)
	Supplies and consumables used	(7,545)	(13,391)
	Depreciation expense	(677)	(2,598)
	Impairment of property, plant and equipment	(17)	(33)
	Finance costs	(2)	(3)

	Total expenses	(78,115)	(111,019)
54(h)(i)	**Surplus or (deficit) for the period 1 January 20X2 to 30 June 20X2**	2,394	4,072

54(h)(ii)	**Assets as at 30 June 20X2**		
	Financial assets	822	904
	Inventory	0	5
	Property, plant and equipment	12,116	44,586
	Intangible assets	42	0
	Total Assets	12,980	45,495
54(h)(ii)	**Liabilities as at 30 June 20X2**		
	Financial liabilities	(933)	(1,093)
	Total liabilities	(933)	(1,093)
54(h)(iii)	**Net assets as at 30 June 20X2**	12,047	44,402
	Net assets/equity as at 30 June 20X2		
	Revaluation surplus	0	18,332
	Accumulated surpluses or Deficits	12,047	26,070
	Total net assets/equity as at 30 June 20X2	12,047	44,402

In considering the disclosures related to an amalgamation, an entity may find it helpful to refer to the discussion of materiality in ASLB 1, '*Presentation of Financial Statements*'.

Accounting for Acquisitions

Reverse Acquisitions

Illustrating the Consequences of Recognising a Reverse Acquisition by Applying Paragraphs AG66–AG71 of ASLB 40

IE193. This example illustrates the accounting for a reverse acquisition in which Entity B, the legal controlled entity, acquires Entity A, the entity issuing equity instruments and therefore the legal controlling entity, in

a reverse acquisition on 30 September 20X6. This example ignores the accounting for any income tax effects.IE194. The balance sheet of Entity A and Entity B immediately before the acquisition are:

	Entity A (legal controlling entity, accounting acquired operation)	**Entity B (legal controlled entity, accounting acquirer)**
	Rs.	Rs.
Current assets	500	700
Non-current assets	1,300	3,000
Total assets	1,800	3,700
Current liabilities	300	600
Non-current liabilities	400	1,100
Total liabilities	700	1,700
Shareholders' equity		
Accumulated surplus or deficit	800	1,400
Issued equity		
100 ordinary shares	300	
60 ordinary shares		600
Total shareholders' equity	1,100	2,000
Total liabilities and shareholders' equity	1,800	3,700

IE195. This example also uses the following information:

(a) On 30 September 20X6 Entity A issues 2.5 shares in exchange for each ordinary share of Entity B. Entity B's sole shareholder, a local government, exchanges its shares in Entity B. Therefore, Entity A issues 150 ordinary shares in exchange for all 60 ordinary shares of Entity B.

(b) The fair value of each ordinary share of Entity B at 30 September 20X6 is Rs.40. The quoted market price of Entity A's ordinary shares at that date is Rs.16.

(c) The fair values of Entity A's identifiable assets and liabilities at 30 September 20X6 are the same as their carrying amounts, except that the fair value of Entity A's non-current assets at 30 September 20X6 is Rs. 1,500.

Calculating the Fair Value of the Consideration Transferred

IE196. As a result of Entity A (legal controlling entity, accounting acquired operation) issuing 150 ordinary shares, Entity B's shareholder (the local government) owns 60 percent of the issued shares of the combined entity (i.e., 150 of 250 issued shares). The remaining 40 percent are owned by Entity A's shareholders. If the acquisition had taken the form of Entity B issuing additional ordinary shares to Entity A's shareholders in exchange for their ordinary shares in Entity A, Entity B would have had to issue 40 shares for the ratio of ownership interest in the combined entity to be the same. Entity B's shareholder (the local government) would then own 60 of the 100 issued shares of Entity B—60 percent of the combined entity. As a result, the fair value of the consideration effectively transferred by Entity B and the group's interest in Entity A is Rs. 1,600 (40 shares with a fair value per share of Rs. 40).

IE197. The fair value of the consideration effectively transferred should be based on the most reliable measure. In this example, the quoted price of Entity A's shares in the principal (or most advantageous) market for the shares provides a more reliable basis for measuring the consideration effectively transferred than the fair value of the shares in Entity B, and the consideration is measured using the market price of Entity A's shares—100 shares with a fair value per share of Rs. 16.

Measuring Goodwill

IE198. Goodwill is measured as the excess of the fair value of the consideration effectively transferred (the group's interest in Entity A) over the net amount of Entity A's recognised identifiable assets and liabilities, as follows:

	Rs.	**Rs.**
Consideration effectively transferred		1,600

Net recognised values of Entity A's identifiable assets and liabilities		
Current assets	500	
Non-current assets	1,500	
Current liabilities	(300)	
	Rs.	Rs.
Non-current liabilities	(400)	(1,300)
Goodwill		300

Consolidated Balance Sheet at 30 September 20X6

IE199. The consolidated balance sheet immediately after the acquisition is:

	Rs.
Current assets [Rs. 700 + Rs. 500]	1,200
Non-current assets [Rs. 3,000 + Rs. 1,500]	4,500
Goodwill	300
Total assets	6,000
Current liabilities [Rs. 600 + Rs. 300]	900
Non-current liabilities [Rs. 1,100 + Rs. 400]	1,500
Total liabilities	2,400
Shareholders' equity	
Accumulated surplus or deficit	1,400
Issued equity	
250 ordinary shares [Rs. 600 + Rs. 1,600]	2,200
Total shareholders' equity	3,600
Total liabilities and shareholders' equity	6,000

IE200. The amount recognised as issued equity interests in the consolidated financial statements (Rs. 2,200) is determined by adding the issued equity of the legal controlled entity immediately before the acquisition (Rs. 600) and the fair value of the consideration effectively transferred (Rs. 1,600). However, the equity structure appearing in the consolidated financial statements (i.e., the number and type of equity interests issued) must reflect the equity structure of the legal controlling entity, including the equity interests issued by the legal controlling entity to effect the combination.

Non-Controlling Interest

IE201. Assume the same facts as above, except that Entity B has more than one shareholder, and that only 56 of Entity B's 60 ordinary shares are exchanged. Because Entity A issues 2.5 shares in exchange for each ordinary share of Entity B, Entity A issues only 140 (rather than 150) shares. As a result, Entity B's shareholders own 58.3 percent of the issued shares of the combined entity (140 of 240 issued shares). The fair value of the consideration transferred for Entity A, the accounting acquired operation, is calculated by assuming that the combination had been effected by Entity B issuing additional ordinary shares to the shareholders of Entity A in exchange for their ordinary shares in Entity A. That is because Entity B is the accounting acquirer, and paragraph AG67 of ASLB 40 requires the acquirer to measure the consideration exchanged for the accounting acquired operation.

IE202. In calculating the number of shares that Entity B would have had to issue, the non-controlling interest is excluded from the calculation. The majority shareholder (the government) owns 56 shares of Entity B. For that to represent a 58.3 percent equity interest, Entity B would have had to issue an additional 40 shares. The majority shareholder (the government) would then own 56 of the 96 issued shares of Entity B and, therefore, 58.3 percent of the combined entity. As a result, the fair value of the consideration transferred for Entity A, the accounting acquired operation, is Rs. 1,600 (i.e., 40 shares, each with a fair value of Rs. 40). That is the same amount as when Entity B's sole shareholder tenders all 60 of its ordinary shares for exchange. The recognised amount of the group's interest in Entity A, the accounting acquired operation, does not change if some of Entity B's shareholders do not participate in the exchange.

IE203. The non-controlling interest is represented by the four shares of the total 60 shares of Entity B that are not exchanged for shares of Entity A. Therefore, the non-controlling interest is 6.7 percent. The non-controlling interest reflects the proportionate interest of the non-controlling shareholders in the pre- combination carrying amounts of the net assets of Entity B, the legal controlled entity. Therefore, the consolidated balance sheet is adjusted to show a non-controlling interest of 6.7 percent of the pre-combination carrying

amounts of Entity B's net assets (i.e., Rs. 134 or 6.7 percent of Rs. 2,000).

IE204. The consolidated balance sheet at 30 September 20X6, reflecting the non-controlling interest, is as follows:

	Rs.
Current assets [Rs. 700 + Rs. 500]	1,200
Non-current assets [Rs. 3,000 + Rs. 1,500]	4,500
Goodwill	300
Total assets	6,000
Current liabilities [Rs. 600 + Rs. 300]	900
Non-current liabilities [Rs. 1,100 + Rs. 400]	1,500
Total liabilities	2,400
Shareholders' equity	
Accumulated surplus or deficit [Rs. 1,400 × 93.3 percent]	1,306
Issued equity	
240 ordinary shares [CU560 + Rs. 1,600]	2,160
Non-controlling interest	134
Total shareholders' equity	3,600
Total liabilities and shareholders' equity	6,000

IE205. The non-controlling interest of Rs. 134 has two components. The first component is the reclassification of the non-controlling interest's share of the accounting acquirer's retained earnings immediately before the acquisition (Rs. 1,400 × 6.7 percent or Rs. 93.80). The second component represents the reclassification of the non-controlling interest's share of the accounting acquirer's issued equity (Rs. 600 × 6.7 percent or Rs. 40.20).

Identifiable Intangible Assets in an Acquisition

Illustrating the Consequences of Applying Paragraphs 64–68 and AG75–AG84 of ASLB 40

IE206. The following are examples of identifiable intangible assets acquired in an acquisition. Some of the examples may have characteristics of assets other than intangible assets. The acquirer should account for those assets in accordance with their substance. The examples are not intended to be all-inclusive.

IE207. Intangible assets identified as having a 'binding arrangement' basis are those that arise from binding arrangements (including rights from contracts or other legal rights). Those designated as having a 'no binding arrangement' basis do not arise from binding arrangements but are separable. Intangible assets identified as having a binding arrangement basis might also be separable but separability is not a necessary condition for an asset to meet the binding arrangement criterion.

Marketing-Related Intangible Assets

IE208. Marketing-related intangible assets are used primarily in the marketing or promotion of products or services. Examples of marketing-related intangible assets are:

Class	Basis
Trademarks, trade names, service marks, collective marks and certification marks	Binding arrangement
Trade dress (unique color, shape or package design)	Binding arrangement
Newspaper mastheads	Binding arrangement
Internet domain names	Binding arrangement
Non-competition agreements	Binding arrangement

Trademarks, Trade Names, Service Marks, Collective Marks and Certification Marks

IE209. Trademarks are words, names, symbols or other devices used in

trade to indicate the source of a product and to distinguish it from the products of others. A service mark identifies and distinguishes the source of a service rather than a product. Collective marks identify the goods or services of members of a group. Certification marks certify the geographical origin or other characteristics of a good or service.

IE210. Trademarks, trade names, service marks, collective marks and certification marks may be protected legally through registration with governmental agencies, continuous use in commerce or by other means. If it is protected legally through registration or other means, a trademark or other mark acquired in an acquisition is an intangible asset that meets the binding arrangement criterion. Otherwise, a trademark or other mark acquired in an acquisition can be recognised separately from goodwill if the separability criterion is met, which normally it would be.

IE211. The terms *brand* and *brand name*, often used as synonyms for trademarks and other marks, are general marketing terms that typically refer to a group of complementary assets such as a trademark (or service mark) and its related trade name, formulas, recipes and technological expertise. ASLB 40 does not preclude an entity from recognising, as a single asset separately from goodwill, a group of complementary intangible assets commonly referred to as a brand if the assets that make up that group have similar useful lives.

Internet Domain Names

IE212. An Internet domain name is a unique alphanumeric name that is used to identify a particular numeric Internet address. Registration of a domain name creates an association between that name and a designated computer on the Internet for the period of the registration. Those registrations are renewable. A registered domain name acquired in an acquisition meets the binding arrangement criterion.

IE213-221. [Refer to Appendix 1]

Artistic-Related Intangible Assets

IE222. Examples of artistic-related intangible assets are:

Class	Basis
Plays, operas and ballets	Binding arrangement
Books, magazines, newspapers and other literary works	Binding arrangement
Musical works such as compositions, song lyrics and advertising jingles	Binding arrangement
Pictures and photographs	Binding arrangement
Video and audio-visual material, including motion pictures or films, music videos and television programs	Binding arrangement

IE223. Artistic-related assets acquired in an acquisition are identifiable if they arise from binding arrangements (including rights from contracts) or legal rights such as those provided by copyright. The holder can transfer a copyright, either in whole through an assignment or in part through a licensing agreement. An acquirer is not precluded from recognising a copyright intangible asset and any related assignments or license agreements as a single asset, provided they have similar useful lives.

Binding Arrangement-Based Intangible Assets

IE224. Binding arrangement-based intangible assets represent the value of rights that arise from binding arrangements. Binding arrangements with customers are one type of binding arrangement-based intangible asset. If the terms of a binding arrangement give rise to a liability (for example, if the terms of an operating lease or binding arrangement with a customer are unfavorable relative to market terms), the acquirer recognises it as a liability assumed in the acquisition. Examples of binding arrangement-based intangible assets are:

Class	Basis
Licensing, royalty and standstill agreements	Binding arrangement

Advertising, construction, management, service or supply binding arrangements	Binding arrangement
Lease agreements (whether the acquired operation is the lessee or the lessor)	Binding arrangement
Construction permits	Binding arrangement
Franchise agreements	Binding arrangement
Operating and broadcast rights	Binding arrangement
Servicing binding arrangements, such as mortgage servicing binding arrangements	Binding arrangement
Binding arrangements for employment	Binding arrangement
Use rights, such as drilling, water, air, timber cutting and route authorities	Binding arrangement

Servicing Binding Arrangements, Such as Mortgage Servicing Binding Arrangements

IE225. Binding arrangements to service financial assets are one type of binding arrangement-based intangible asset. Although servicing is inherent in all financial assets, it becomes a distinct asset (or liability) by one of the following:

(a) When separated in the binding arrangement from the underlying financial asset by sale or securitisation of the assets with servicing retained;

(b) Through the separate purchase and assumption of the servicing.

IE226. If mortgage loans, credit card receivables or other financial assets are acquired in an acquisition with servicing retained, the inherent servicing rights are not a separate intangible asset because the fair value of those servicing rights is included in the measurement of the fair value of the acquired financial asset.

Binding Arrangements for Employment

IE227. Binding arrangements for employment that are beneficial binding arrangements from the perspective of the employer because the pricing of those binding arrangements is favorable relative to market terms are one type of binding arrangement-based intangible asset.

Use Rights

IE228. Use rights include rights for drilling, water, air, timber cutting and route authorities. Some use rights are binding arrangement-based intangible assets to be accounted for separately from goodwill. Other use rights may have characteristics of tangible assets rather than of intangible assets. An acquirer should account for use rights on the basis of their nature.

Technology-Based Intangible Assets

IE229. Examples of technology-based intangible assets are:

Class	**Basis**
Patented technology	Binding arrangement
Computer software and mask works	Binding arrangement
Unpatented technology	No binding arrangement
Databases, including title plants	No binding arrangement
Trade secrets, such as secret formulas, processes and recipes	Binding arrangement

Computer Software and Mask Works

IE230. Computer software and program formats acquired in an acquisition that are protected legally, such as by patent or copyright, meet the binding arrangement criterion for identification as intangible assets.

IE231. Mask works are software permanently stored on a read-only memory chip as a series of stencils or integrated circuitry. Mask works may have legal protection. Mask works with legal protection

that are acquired in an acquisition meet the binding arrangement criterion for identification as intangible assets.

Databases, Including Title Plants

IE232. Databases are collections of information, often stored in electronic form (such as on computer disks or files). A database that includes original works of authorship may be entitled to copyright protection. A database acquired in an acquisition and protected by copyright meets the binding arrangement criterion. However, a database typically includes information created as a consequence of an entity's normal operations, such as lists of service users, or specialised information, such as scientific data or credit information. Databases that are not protected by copyright can be, and often are, exchanged, licensed or leased to others in their entirety or in part. Therefore, even if the future economic benefits from a database do not arise from legal rights, a database acquired in an acquisition meets the separability criterion.

IE233. Title plants constitute a historical record of all matters affecting title to parcels of land in a particular geographical area. Title plant assets are bought and sold, either in whole or in part, in exchange transactions or are licensed. Therefore, title plant assets acquired in an acquisition meet the separability criterion.

Trade Secrets, Such as Secret Formulas, Processes and Recipes

IE234. A trade secret is 'information, including a formula, pattern, recipe, compilation, program, device, method, technique, or process that (a) derives independent economic value, actual or potential, from not being generally known and (b) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.' If the future economic benefits from a trade secret acquired in an acquisition are legally protected, that asset meets the binding arrangement criterion. Otherwise, trade secrets acquired in an acquisition are identifiable only if the separability criterion is met, which is likely to be the case.

Measurement of Non-Controlling Interest (NCI) in an Acquisition

Illustrating the Consequences of Applying Paragraph 73 of ASLB 40.

IE235. The following examples illustrate the measurement of components of NCI at the acquisition date in an acquisition.

Measurement of NCI Including Preference Shares

IE236. TE has issued 100 preference shares, which are classified as equity. The preference shares have a nominal value of Re. 1 each. The preference shares give their holders a right to a preferential dividend in priority to the payment of any dividend to the holders of ordinary shares. Upon liquidation of TE, the holders of the preference shares are entitled to receive out of the assets available for distribution the amount of Re. 1 per share in priority to the holders of ordinary shares. The holders of the preference shares do not have any further rights on liquidation.

IE237. AE acquires all ordinary shares of TE. The transaction gives AE control of TE, and an analysis of the economic substance of the combination using the guidance in paragraphs 9–14 and AG19–AG50 of ASLB 40 confirms the transaction is an acquisition. The acquisition-date fair value of the preference shares is CU120.

IE238. Paragraph 73 of ASLB 40 states that for each acquisition, the acquirer should measure at the acquisition date components of non-controlling interest in the acquired operation that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either fair value or the present ownership instruments' proportionate share in the acquired operation's recognised amounts of the identifiable net assets. All other components of non-controlling interest must be measured at their acquisition-date fair value, unless another measurement basis is required by ASLBs.

IE239. The non-controlling interests that relate to TE's preference shares do not qualify for the measurement choice in paragraph 73 of ASLB 40 because they do not entitle their holders to a

proportionate share of the entity's net assets in the event of liquidation. The acquirer measures the preference shares at their acquisition-date fair value of Rs. 120.

First Variation

IE240. Suppose that upon liquidation of TE, the preference shares entitle their holders to receive a proportionate share of the assets available for distribution. The holders of the preference shares have equal right and ranking to the holders of ordinary shares in the event of liquidation. Assume that the acquisition-date fair value of the preference shares is now Rs. 160 and that the proportionate share of TE's recognised amounts of the identifiable net assets that is attributable to the preference shares is Rs. 140.

IE241. The preference shares qualify for the measurement choice in paragraph 73 of ASLB 40. AE can choose to measure the preference shares either at their acquisition-date fair value of Rs. 160 or at their proportionate share in the acquired operation's recognised amounts of the identifiable net assets of Rs. 140.

IE242-250. [Refer to Appendix 1]

Gain on a Bargain Purchase in an Acquisition

Illustrating the Consequences of Recognising and Measuring a Gain from a Bargain Purchase in an Acquisition by Applying Paragraphs 85–90 of ASLB 40

IE251. The following example illustrates the accounting for an acquisition in which a gain on a bargain purchase is recognised.

IE252. On 1 January 20X5 AE acquires 80 percent of the equity interests of TE, a private entity, in exchange for cash of Rs. 150. Because the former owners of TE needed to dispose of their investments in TE by a specified date, they did not have sufficient time to market TE to multiple potential buyers. The management of AE initially measures the separately recognisable identifiable assets acquired and the liabilities assumed as of the acquisition date in accordance with the requirements of ASLB 40. The identifiable assets are measured at Rs. 250 and the liabilities assumed are measured at Rs. 50. AE engages an independent consultant, who determines that the

fair value of the 20 percent non-controlling interest in TE is Rs. 42.

IE253. The amount of TE's identifiable net assets (Rs. 200, calculated as Rs. 250 – Rs. 50) exceeds the fair value of the consideration transferred plus the fair value of the non-controlling interest in TE. Therefore, AE reviews the procedures it used to identify and measure the assets acquired and liabilities assumed and to measure the fair value of both the non-controlling interest in TE and the consideration transferred. After that review, AE decides that the procedures and resulting measures were appropriate. AE measures the gain on its purchase of the 80 percent interest as follows:

		Rs.	Rs.
Amount of the identifiable net assets acquired (Rs. 250 – Rs. 50)			200
Less:	Fair value of the consideration transferred for AE's 80 percent interest in TE; plus	150	
	Fair value of non-controlling interest in TE	42	
			192
Gain on bargain purchase of 80 percent interest			8

IE254. AE would record its acquisition of TE in its consolidated financial statements as follows:

	Rs.	Rs.
Dr Identifiable assets acquired	250	
Cr Cash		150
Cr Liabilities assumed		50
Cr Gain on the bargain purchase		8
Cr Equity—non-controlling interest in TE		42

IE255. If the acquirer chose to measure the non-controlling interest in TE on the basis of its proportionate interest in the identifiable net assets of the acquired operation, the recognised amount of the non-controlling interest would be Rs. 40 (Rs. 200 × 0.20). The gain on the bargain purchase then would be Rs. 10 (Rs. 200 – (Rs. 150 + Rs. 40)).

Measurement Period in an Acquisition

Illustrating the Consequences of Applying Paragraphs 103–108 of ASLB 40.

IE256. If the initial accounting for an acquisition is not complete at the end of the financial reporting period in which the combination occurs, paragraph 103 of ASLB 40 requires the acquirer to recognise in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer recognises adjustments to the provisional amounts needed to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. Paragraph 107 of ASLB 40 requires the acquirer to recognise such adjustments as if the accounting for the acquisition had been completed at the acquisition date. Measurement period adjustments are not included in surplus or deficit.

IE257. Suppose that AE acquires TE on 30 September 20X7. AE seeks an independent valuation for an item of property, plant and equipment acquired in the combination, and the valuation was not complete by the time AE authorised for issue its financial statements for the year ended 31 December 20X7. In its 20X7 annual financial statements, AE recognised a provisional fair value for the asset of Rs. 30,000. At the acquisition date, the item of property, plant and equipment had a remaining useful life of five years. Five months after the acquisition date, AE received the independent valuation, which estimated the asset's acquisition-date fair value as Rs. 40,000.

IE258. In its financial statements for the year ended 31 December 20X8, AE retrospectively adjusts the 20X7 prior year information as follows:

(a) The carrying amount of property, plant and equipment as of 31 December 20X7 is increased by Rs. 9,500. That adjustment is measured as the fair value adjustment at the acquisition date of Rs. 10,000 less the additional depreciation that would have been recognised if the asset's fair value at the acquisition date had been recognised from that date (Rs. 500 for three months' depreciation).

(b) The carrying amount of goodwill as of 31 December 20X7 is decreased by Rs. 10,000.

(c) Depreciation expense for 20X7 is increased by Rs. 500.

IE259. In accordance with paragraph 124 of ASLB 40, AE discloses:

(a) In its 20X7 financial statements, that the initial accounting for the acquisition has not been completed because the valuation of property, plant and equipment has not yet been received.

(b) In its 20X8 financial statements, the amounts and explanations of the adjustments to the provisional values recognised during the current reporting period. Therefore, AE discloses that the 20X7 comparative information is adjusted retrospectively to increase the fair value of the item of property, plant and equipment at the acquisition date by Rs. 9,500, offset by a decrease to goodwill of Rs. 10,000 and an increase in depreciation expense of Rs. 500.

Determining what is Part of the Acquisition Transaction

Settlement of a Pre-Existing Relationship – loan

Illustrating the Consequences of Applying Paragraphs 109–110 and AG98–AG101 of ASLB 40.

IE260. AE provides TE with a five year, fixed rate loan of Rs. 100. Interest is payable quarterly, with the principal repaid on maturity. With two years remaining under the loan agreement, AE acquires TE.

IE261. Included in the total fair value of TE is a Rs. 90 financial liability for the fair value of the loan arrangement with AE. At the acquisition date, the carrying amount of the corresponding financial asset in AE's financial statements (the amortised cost of the loan) is Rs. 100.

IE262. In this example, AE calculates a loss of Rs. 10. The loss is calculated as the difference between the fair value of the financial liability assumed and carrying amount of the corresponding financial asset previously recognised by AE. In its consolidated financial statements, AE will eliminate its financial asset (Rs. 100) against the fair value of TE's financial

liability (Rs. 90), the difference representing the loss to AE.

Settlement of a Pre-Existing Relationship – Transfers

Illustrating the Consequences of Applying Paragraphs 109–110 and AG98–AG101 of ASLB 40.

IE263. On 1 January 20X7, AE acquires TE. Previously, on 1 October 20X6, AE provided TE with a grant of Rs. 800 to be used in the provision of an agreed number of training courses.

IE264. The grant was subject to a condition that the grant would be returned proportionately to the number of training courses not delivered. At the acquisition date, TE had delivered a quarter of the agreed number of courses, and recognised a liability of Rs. 600 in respect of its performance obligation, in accordance with ASLB 23. Based on past experience, AE considered that TE was more likely than not to deliver the training courses. It was therefore not probable that there would be a flow of resources to AE, and AE did not recognise an asset in respect of the grant, but accounted for the full Rs. 800 as an expense.

IE265. In this example, AE calculates a gain of Rs. 600. The gain is calculated as the liability assumed that is derecognised because, as a result of the acquisition, there is no longer an obligation owed to a third party.

IE266. In this example, no corresponding asset had been recognised by AE; if AE had previously recognised a corresponding asset, this would be derecognised at the acquisition date, and the derecognised amount would be included in the calculation of the gain or loss.

Settlement of a Pre-Existing Relationship – Supply Contract

Illustrating the Consequences of Applying Paragraphs 109–110 and AG98–AG101 of ASLB 40.

IE267. AE purchases electronic components from TE under a five-year supply contract at fixed rates. Currently, the fixed rates are higher than the rates at which AE could purchase similar electronic components from another supplier. The supply contract allows AE

to terminate the contract before the end of the initial five-year term but only by paying a Rs. 6 million penalty. With three years remaining under the supply contract, AE pays Rs. 50 million to acquire TE, which is the fair value of TE based on what other market participants would be willing to pay.

IE268. Included in the total fair value of TE is Rs. 8 million related to the fair value of the supply contract with AE. Rs. 8 million represents a Rs. 3 million component that is 'at market' because the pricing is comparable to pricing for current market transactions for the same or similar items and a Rs. 5 million component for pricing that is unfavorable to AE because it exceeds the price of current market transactions for similar items. TE has no other identifiable assets or liabilities related to the supply contract, and AE has not recognised any assets or liabilities related to the supply contract before the acquisition.

IE269. In this example, AE calculates a loss of Rs. 5 million (the lesser of the Rs. 6 million stated settlement amount and the amount by which the contract is unfavorable to the acquirer) separately from the acquisition. The Rs. 3 million 'at-market' component of the contract is part of goodwill.

IE270. Whether AE had recognised previously an amount in its financial statements related to a pre-existing relationship will affect the amount recognised as a gain or loss for the effective settlement of the relationship. Suppose that ASLBs had required AE to recognise a Rs. 6 million liability for the supply contract before the acquisition. In that situation, AE recognises a Rs. 1 million settlement gain on the contract in surplus or deficit at the acquisition date (the Rs. 5 million measured loss on the contract less the Rs. 6 million loss previously recognised). In other words, AE has in effect settled a recognised liability of Rs. 6 million for Rs. 5 million, resulting in a gain of Rs. 1 million.

Contingent Payments to Employees in an Acquisition

Illustrating the Consequences of Applying Paragraphs 109–110, AG98 and AG102– AG103 of ASLB 40.

IE271. TE appointed a candidate as its new CEO under a ten-year contract.

The contract required TE to pay the candidate Rs. 5 million if TE is acquired before the contract expires. AE acquires TE eight years later. The CEO was still employed at the acquisition date and will receive the additional payment under the existing contract.

IE272. In this example, TE entered into the employment agreement before the negotiations of the combination began, and the purpose of the agreement was to obtain the services of CEO. Thus, there is no evidence that the agreement was arranged primarily to provide benefits to AE or the combined entity. Therefore, the liability to pay Rs. 5 million is included in the application of the acquisition method.

IE273. In other circumstances, TE might enter into a similar agreement with CEO at the suggestion of AE during the negotiations for the acquisition. If so, the primary purpose of the agreement might be to provide severance pay to CEO, and the agreement may primarily benefit AE or the combined entity rather than TE or its former owners. In that situation, AE accounts for the liability to pay CEO in its post-combination financial statements separately from application of the acquisition method.

Subsequent Measurement of Transfers, Concessionary Loans and Similar Benefits Received by an Acquirer or an Acquired Operation on the Basis of Criteria that May Change as a Result of an Acquisition

Illustrating the Consequences of Applying Paragraphs 114 and AG109–AG111 of ASLB 40.

IE274. The following example illustrates the subsequent accounting for a transfer received by an acquirer on the basis of criteria that may change as a result of an acquisition.

IE275. On 1 January 20X6, a Central government provides an annual grant to those municipalities where their revenue per head of population is below a threshold. On 1 June 20X3 AE, a municipality, acquires TE, a shopping complex that will generate revenue for AE. AE had previously received a grant of Rs. 500, based on its revenue per head of population.

IE276. As a result of its acquisition of TE on 1 June 20X3, the revenue per head of population of AE increases above the threshold that the government had set when allocating grants.

IE277. On 1 July 20X3, the Central government requires AE to repay a portion (Rs. 100) of the grant previously received by AE. AE recognises a liability and an expense of Rs. 100 on 1 July 20X3.

Disclosure Requirements Relating to Acquisitions

Illustrating the Consequences of Applying the Disclosure Requirements in Paragraphs 119–125 of ASLB 40.

IE278. The following example illustrates some of the disclosure requirements relating to acquisitions; it is not based on an actual transaction. The example assumes that AE is an entity with responsibility for healthcare in its region and that TE is a listed entity. The illustration presents the disclosures in a tabular format that refers to the specific disclosure requirements illustrated. An actual footnote might present many of the disclosures illustrated in a simple narrative format.

Paragraph reference	
120(a)–(d)	On 30 June 20X2 AE acquired 75 percent of the ordinary shares of TE and obtained control of TE. An analysis of the economic substance of the combination confirms the transaction is an acquisition. TE is a provider of medical supplies. As a result of the acquisition, AE is expected to deliver improved healthcare to its residents. It also expects to reduce costs through economies of scale.
120(e)	The goodwill of Rs. 2,500 arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of AE and TE.

The following table summarises the consideration paid for TE and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date, as well as the fair value at the acquisition date of the non-controlling interest in TE.

At 30 June 20X2

	Consideration	Rs.
120(f)(i)	Cash	11,000
120(f)(iii); 120(g)(i)	Contingent consideration arrangement	1,000
120(f)	**Total consideration transferred**	12,000
120(m)	**Acquisition-related costs** (included in selling, general and administrative expenses in AE's statement of income and expenditure for the year ended 31 December 20X2)	1,250
120(i)	**Recognised amounts of identifiable assets acquired and liabilities assumed**	
	Financial assets	3,500
	Inventory	1,000
	Property, plant and equipment	10,000
	Identifiable intangible assets	3,300

Paragraph reference		
	Financial liabilities	(4,000)
	Contingent liability	(1,000)
	Total identifiable net assets	12,800
120(p)(i)	**Non-controlling interest in TE**	(3,300)
	Goodwill	2,500
		12,000

120(f)(iii) 120(g) 124(b)	The contingent consideration arrangement requires AE to pay the former owners of TE 5 percent of the revenues of XE, an unconsolidated equity investment owned by TE, in excess of Rs. 7,500 for 20X3, up to a maximum amount of Rs. 2,500 (undiscounted). The potential undiscounted amount of all future payments that AE could be required to make under the contingent consideration arrangement is between Rs. 0 and Rs. 2,500. The fair value of the contingent consideration arrangement of Rs. 1,000 was estimated by applying an income approach. Key assumptions include a discount rate range of 20–25 percent and assumed probability- adjusted revenues in XE of Rs. 10,000–20,000. As of 31 December 20X2, neither the amount recognised for the contingent consideration arrangement, nor the range of outcomes or the assumptions used to develop the estimates had changed.
120(h)	The fair value of the financial assets acquired includes receivables with a fair value of Rs. 2,375. The gross amount due under the contracts is Rs. 3,100, of which Rs. 450 is expected to be uncollectible.
124(a)	The fair value of the acquired identifiable intangible assets of Rs. 3,300 is provisional pending receipt of the final valuations for those assets.

Paragraph reference	
120(j) 124(c) ASLB 19.97, 98	A contingent liability of Rs. 1,000 has been recognised for expected warranty claims on products sold by TE during the last three years. We expect that the majority of this expenditure will be incurred in 20X3 and that all will be incurred by the end of 20X4. The potential undiscounted amount of all future payments that AE could be required to make under the warranty arrangements is estimated to be between Rs. 500 and Rs. 1,500. As of 31 December 20X2, there has been no change since 30 June 20X2 in the amount recognised for the liability or any change in the range of outcomes or assumptions used to develop the estimates.

120(p)	The fair value of the non-controlling interest in TE, a listed entity, was measured using the closing market price of TE's ordinary shares on the acquisition date.
120(r)(i)	The revenue included in the consolidated statement of income and expenditure since 30 June 20X2 contributed by TE was Rs. 4,090. TE also contributed profit of Rs. 1,710 over the same period.
120(r)(ii)	Had TE been consolidated from 1 January 20X2 the consolidated statement of income and expenditure would have included revenue of Rs. 27,670 and profit of Rs. 12,870.

In considering the disclosures related to an acquisition, an entity may find it helpful to refer to the discussion of materiality in ASLB 1.

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 40 and the corresponding International Public Sector Accounting Standard (IPSAS) 40, 'Public Sector Combination'.

Comparison with IPSAS 40, *'Public Sector Combination'*

1. Different terminologies have been used in the ASLB 40 as compared to corresponding IPSAS 40, e.g., terms 'entity', 'entity combination', 'statement of income and expenditure' and 'balance sheet' have been used in ASLB 40 in place of 'public sector', 'public sector combination', 'statement of financial performance' and 'statement of financial position', respectively.

2. Paragraph 2A pertaining to applicability of ASLBs has been inserted in ASLB 40 in line with other issued ASLBs.

3. The following paragraphs of IPSAS 40 have been deleted, however, the paragraphs numbers have been retained in ASLB 40 in order to maintain consistency with the corresponding IPSAS 40:
   (i) The following concepts of IPSAS 40 have not been retained as it does not seem relevant in the context of Local Bodies in India:
      a) When an entity combination that is subject to approval by each party's citizens through referenda (paragraph 13(b) and AG36),
      b) Concept related to mutual entities (paragraph 5, AG95-97),
      c) Income Tax is not forgiven in India in case of entity combination & Local Bodies in India cannot be an income tax authority that forgives income tax in case of entity combination (paragraphs 33, 49, 78, 118, 124(f), AG58 and AG86-87),
      d) Concept of share-based payment transactions as local bodies does not deal in employees stock ownership plans (ESOP) (paragraphs 84 and AG104-106),
      e) Valuation methods of financial instruments (paragraphs 25, 70 & 117(b)), and
      f) Disclosures in case of acquisition for goodwill that is expected to be deductible for tax purposes (paragraph 120(k)).
   (ii) Paragraph 126 pertaining to effective date has been deleted as ASLB 40 would become mandatory for Local Bodies in a State from the date specified by the State Government concerned.
   (iii) Paragraphs 127-134 and AG114-115 of IPSAS 40 pertaining to transitional provisions have been deleted as a separate ASLB 33, '*First-time Adoption of ASLBs*' have been issued that contains all transitional provisions at one place.
   (iv) Paragraph AG108 regarding drawing guidance relating to insurance contract, income taxes and share based payments standards from subsequent measurement and accounting portion in case of acquisition.

4. The following paragraphs of IPSAS 40 have been amended to make it more relevant in the context of Local Bodies in India:
   (i) Appendix C of ASLB 35, '*Consolidated Financial Statements*' covers the concept of investment entity, accordingly, the reference of the same has been provided in paragraph 4.
   (ii) ASLB 31, '*Intangible Assets*' does not contain the concept of indefinite useful life for intangible asset rather it provides that there is a rebuttable presumption that the life of an intangible asset will not exceed ten years. Apart from this, ASLBs on Impairment of Cash-Generating Assets and Non-Cash Generating Assets provide that the intangible assets are impaired whenever the indications of impairment are present except intangible assets that is not yet available for use that are impaired annually irrespective of indications of impairment in. Accordingly, the modifications done in paragraph 47 and 113.
   (iii) The concept of Statement of changes in net assets/ equity has been deleted in line with other already issued ASLBs. Accordingly, modification made in paragraphs 50(d) & 54(g)(iii).
   (iv) ASLB 40 requires only nature-wise classification of expenses for recognition of expenses in Statement of Income and Expenditure in line with ASLB 1, '*Presentation of Financial Statements*'. Accordingly, the modification made in paragraph 54(h)(i).
   (v) Income Tax is not forgiven in India in case of entity combination & Local Bodies in India cannot be an income tax authority that forgives income tax in case of entity combination. Accordingly, the modifications done in paragraphs 34, 56(b), 79, 124(b), AG57 and AG85.
   (vi) Deleted the concept of share-based payment transactions in paragraph 95.
   (vii) Removed the reference of Recommended Practice Guideline (RPG) issued by IPSASB in paragraph AG4.
   (viii) Reference of paragraphs 39D-39E of IPSAS 31 deleted from paragraph AG84 of ASLB 40 as corresponding paragraphs are not there in ASLB 31.
   (ix) Paragraphs 117 and AG103(e)-(g) pertaining to meeting specified earning target and profit-sharing arrangements have been deleted as the main objective of Local Bodies is to provide services rather than earning profit.

5. Footnotes have been appended to paragraph 98 to define the terms 'financial instrument', 'financial assets' 'financial liability' and 'equity instruments' for more clarity (paragraph 98)

6. ASLB 40 makes a reference to the Guidance on '*Financial Instruments*', 'income taxes' and 'insurance contracts' on which ASLBs/Guidance is yet to be formulated/issued. The clarification on obtaining guidance in regard to those ASLBs has been incorporated in ASLB 40 such as in paragraph 25, 33& 71(b).

7. Some examples of IPSAS 40 have been deleted or modified in light of Indian conditions, and some examples have been included in ASLB 40. (paragraphs 25, 67, 70, 95, AG24, AG35, AG37, AG74 and AG76)

8. Flow charts inserted in implementation guidance briefing the accounting for amalgamation and acquisition.

9. Consequential changes resulting from the above departures have been made in ASLB 40.

Appendix 2

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 40 and the existing Accounting Standard (AS) 14, 'Accounting for Amalgamations'.

Comparison with Existing AS 14, *'Accounting for Amalgamations'*

1. ASLB 40 uses different terminologies, in certain instances, from existing AS 14. For example, ASLB 40 uses the terms "entity" and "statement of income and expenditure" whereas existing AS 14 uses the terms "enterprise" and "statement of profit and loss", respectively.

2. ASLB 40 defines an entity combination which has a wider scope whereas existing AS 14 deals with amalgamation and mergers.

3. Under existing AS 14, the acquired assets and liabilities are recognised at their existing carrying amounts or at fair values under the purchase method. ASLB 40 requires the acquired identifiable assets liabilities and non-controlling interest to be recognised at fair value under acquisition method. (Paragraph 12 of AS 14 and paragraphs 72-73 of ASLB 40)

4. ASLB 40 requires that for each entity combination, the acquirer should measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. On the other hand, existing AS 14 read together with AS 21 states that the minority interest is the amount of equity attributable to minorities at the date on which investment in a subsidiary is made and it is shown separately from liabilities and shareholders' equity. (Paragraph 13(e) of AS 21 and paragraph 73 of IPSAS 40)

5. Under ASLB 40, the goodwill is not amortised but tested for impairment on annual basis in accordance with ASLB 26, '*Impairment of Cash-Generating Assets*'. However, existing AS 14 requires that the goodwill arising on amalgamation in the nature of purchase is amortised over a period not exceeding five years.

6. ASLB 40 deals with reverse acquisitions whereas existing AS 14 does not deal with the same.

7. ASLB 40 deals with the contingent consideration in case of entity combination whereas existing AS 14 does not provide specific guidance on this aspect.

8. ASLB 40 contains additional guidance on local body specific transactions.