International
Public Sector
Accounting
Standards Board

Exposure Draft 41
May 2009
Comments are requested by August 15, 2009

Proposed International Public Sector Accounting Standard

Entity Combinations from Exchange Transactions

International Federation
of Accountants

REQUEST FOR COMMENTS

The International Public Sector Accounting Standards Board, an independent standard-setting body within the International Federation of Accountants (IFAC), approved this Exposure Draft, "Entity Combinations from Exchange Transactions," for publication in May 2009. The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form.

Please submit your comments, preferably by email, so that they will be received by August 15, 2009. All comments will be considered a matter of public record. Comments should be addressed to:

Technical Director

International Public Sector Accounting Standards Board

International Federation of Accountants

277 Wellington Street, 4th Floor

Toronto, Ontario M5V 3H2 CANADA

Email responses should be sent to: edcomments@ifac.org and stepheniefox@ifac.org

Copies of this exposure draft may be downloaded free-of-charge from the IFAC website at http://www.ifac.org.

Copyright © May 2009 by the International Federation of Accountants (IFAC). All rights reserved. Permission is granted to make copies of this work provided that such copies are for use in academic classrooms or for personal use and are not sold or disseminated and provided that each copy bears the following credit line: *"Copyright © May 2009 by the International Federation of Accountants (IFAC). All rights reserved. Used with permission of IFAC. Contact permissions@ifac.org for permission to reproduce, store or transmit this document."* Otherwise, written permission from IFAC is required to reproduce, store or transmit, or to make other similar uses of, this document, except as permitted by law. Contact permissions@ifac.org.

ACKNOWLEDGMENT

This Exposure Draft of an International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Financial Reporting Standard IFRS 3, "Business Combinations" published by the International Accounting Standards Board (IASB). Extracts from IFRS 3 are reproduced in this publication of the International Public Sector Accounting Standards Board of the International Federation of Accountants with the permission of the International Accounting Standards Committee Foundation (IASCF).

The approved text of the IFRSs is that published by the IASB in the English language, and copies may be obtained directly from IASB Publications Department, 30 Cannon Street, London EC4M 6XH, United Kingdom.

E-mail: publications@iasb.org.

Internet: http://www.iasb.org.

IFRSs, IASs, Exposure Drafts and other publications of the IASC and IASB are copyright of the IASCF.

"IFRS," "IAS," "IASB," "IASC," "IASCF" and "International Accounting Standards" are trademarks of the IASCF and should not be used without the approval of the IASCF.

Objective

The objective of this Exposure Draft is to propose the accounting treatment for Entity Combinations from Exchange Transactions. The Exposure Draft is converged with IFRS 3, "Business Combinations" and adapted for public sector entities, where appropriate.

An overview of the types on entity combinations undertaken by public sector entities and the scope of ED 41 is set out below.

<table>
<tr><th>Acquirer</th><th>Type of transaction</th><th>Common control</th><th>Apply</th><th>Comments</th></tr>
<tr><td rowspan="4">Public Sector controlling entity, other than GBE</td><td rowspan="2">Exchange</td><td>Not under common control</td><td>Apply ED 41, "Entity Combinations from Exchange Transactions"</td><td>Example B1 and B2
Accounting treatment adapted from IFRS 3</td></tr>
<tr><td>Under common control</td><td>Scoped out of ED 41, paragraph 3(d)</td><td>IPSASB to address other types of entity combinations in a separate IPSAS</td></tr>
<tr><td rowspan="2">Non-exchange</td><td>Not under common control</td><td>Scoped out of ED 41, paragraph 3(a)</td><td>IPSASB to address other types of entity combinations in a separate IPSAS</td></tr>
<tr><td>Under common control</td><td>Scoped out of ED 41, paragraph 3(a)</td><td>IPSASB to address other types of entity combinations in a separate IPSAS</td></tr>
<tr><td>GBE</td><td></td><td></td><td>Apply IFRS 3 "Business Combinations"</td><td></td></tr>
</table>

Request for Comments

The IPSASB invites comments on all the proposals in the Exposure Draft. 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.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD XX (ED 41) ENTITY COMBINATIONS FROM EXCHANGE TRANSACTIONS

CONTENTS

	Paragraph
Introduction	IN1–IN15
Objective	1-2
Scope	3–7
Identifying an Entity Combination	8
The Acquisition Method	9–57
Identifying the Acquirer	11–12
Determining the Acquisition Date	13–14
Recognizing and Measuring the Identifiable Assets Acquired, the Liabilities Assumed and any Non-Controlling Interest in the Acquiree	15–37
Recognition Principle	15–23
Measurement Principle	24–26
Exceptions to the Recognition or Measurement Principles	27–37
Recognizing and Measuring Goodwill or a Gain from a Bargain Purchase	38–46
Bargain Purchases	40–42
Consideration Transferred	43–44
Contingent Consideration	45–46
Additional Guidance for Applying the Acquisition Method to Particular Types of Entity Combinations	47–49
An Entity Combination Achieved in Stages	47–48
A Entity Combination Achieved by Indirect Acquisition	49
Measurement Period	50–55
Determining What is Part of the Entity Combination Transaction	56–58
Acquisition-Related Costs	58
Subsequent Measurement and Accounting	59–63
Reacquired Rights	60
Contingent Liabilities	61
Indemnification Assets	62

Contingent Consideration 63
Disclosures 64–68
Effective Date and Transition 69–70
Effective Date 69
Transition 70
Appendix A: Defined Terms
Appendix B: Application Guidance
Appendix C: Amendments to other IPSASs
Basis for Conclusions
Illustrative Examples
Comparison with IFRS 3

International Public Sector Accounting Standard XX (ED 41), "Entity Combinations from Exchange Transactions" is set out in paragraphs 1–70 and Appendices A–C. All the paragraphs have equal authority. IPSAS XX (ED 41) should be read in the context of its objective, the Basis for Conclusions, and the "Preface to International Public Sector Accounting Standards." IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors" provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Introduction

IN1. IPSAS XX (ED 41) prescribes the accounting treatment for entity combinations from exchange transactions. It is adapted for public sector entities from IFRS 3, "Business Combinations."

IN2. Entity combinations which do not arise from exchange transactions, for example, an amalgamation of municipalities or a restructuring of activities, will be considered in the second component of the IPSASB's entity combinations project. The specific public sector issues which arise from these types of entity combinations need to be examined in detail in order to determine the appropriate accounting treatment.

Objective

~~IN2~~IN3. The objective of ~~the IFRS~~ IPSAS XX (ED 41) is to enhance the relevance, reliability and comparability of the information that an entity provides in its financial statements about ~~a business~~ an entity combination from an exchange transaction and its effects. It does that by establishing principles and requirements for how an acquirer:

(a) Recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;

(b) Recognizes and measures the goodwill acquired in the ~~business~~ entity combination or a gain from a bargain purchase; and

(c) Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the ~~business~~ entity combination.

Scope

IN4. IPSAS XX (ED 41) is limited to entity combinations arising from exchange transactions and where the entities are not under common control. This type of entity combination occurs when an entity acquires an operation or operations from another entity and gives, directly in exchange, approximately equal value in the form of cash or other consideration.

~~IN3.~~

Core principle

IN5. An acquirer of ~~a business~~ an operation recognizes the assets acquired and liabilities assumed at their acquisition-date fair values and discloses information that enables users to evaluate the nature and financial effects of the acquisition.

Applying the acquisition method

IN6. ~~A business~~ An entity combination from an exchange transaction must be accounted for by applying the acquisition method, unless it is a combination involving entities or ~~businesses~~ operations under common control. ~~One of the parties to a business combination can always be identified as the acquirer, being the entity that obtains~~

~~control of the other business (the acquiree).~~ Formations of a joint venture or the acquisition of an asset or a group of assets that does not constitute ~~a business~~ an operation are not ~~business~~ entity combinations.

IN7. ~~The IFRS~~ IPSAS XX (ED 41) establishes principles for recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. Any classifications or designations made in recognizing these items must be made in accordance with the terms of the contract or other binding arrangement~~contractual terms~~, economic conditions, acquirer's operating or accounting policies and other factors that exist at the acquisition date.

IN8. Each identifiable asset and liability is measured at its acquisition-date fair value. Any non-controlling interest in an acquiree is measured at fair value or as the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

IN9. ~~The IFRS~~IPSAS XX (ED 41) provides limited exceptions to these recognition and measurement principles:

(a) Leases and insurance contracts are required to be classified on the basis of the contractual terms and other factors at the inception of the contract (or when the terms have changed) rather than on the basis of the factors that exist at the acquisition date.

(b) Only those contingent liabilities assumed in ~~a business~~an entity combination that are a present obligation and can be measured reliably are recognized.

(c) Some assets and liabilities are required to be recognized or measured in accordance with other ~~IFRSs~~IPSASs, rather than at fair value. The assets and liabilities affected are those falling within the scope of IPSAS 25, "Employee Benefits"~~IAS 12 Income Taxes, IAS 19 Employee Benefits, IFRS 2 Share-based Payment and IFRS 5 Non-current Assets Held for Sale and Discontinued Operations~~.

(d) There are special requirements for measuring a reacquired right.

(e) Indemnification assets are recognized and measured on a basis that is consistent with the item that is subject to the indemnification, even if that measure is not fair value.

Recognition of goodwill

IN10. ~~The IFRS~~IPSAS XX (ED 41) requires the acquirer, having recognized the identifiable assets, the liabilities and any non-controlling interests, to identify any difference between:

(a) The aggregate of the consideration transferred, any non-controlling interest in the acquiree and, in ~~a business~~ an entity combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree; and

(b) The net identifiable assets acquired.

IN11. The difference may give rise to ~~will, generally, be recognized as~~ goodwill when the definition of goodwill and related recognition and measurement criteria specified in this Standard are satisfied. If the acquirer has made a gain from a bargain purchase that gain is recognized in ~~profit or loss~~surplus or deficit. Impairment of cash-generating assets, including goodwill arising on the acquisition of a cash-generating unit or units, is dealt with in accordance with IPSAS 26, "Impairment of Cash-Generating Assets."

IN12. Impairment of non-cash-generating assets is dealt with in accordance with IPSAS 21, "Impairment of Non-Cash-Generating Assets." IPSAS 21 does not provide for the establishment of non-cash-generating units or the allocation of service potential, including service potential arising from goodwill, to a non-cash-generating unit for purposes of impairment testing. IPSAS 21 requires all non-cash-generating assets to be tested for impairment on an individual asset basis.

IN13. The consideration transferred in ~~a business~~an entity combination (including any contingent consideration) is measured at fair value.

IN14. In general, an acquirer measures and accounts for assets acquired and liabilities assumed or incurred in ~~a business~~ an entity combination after the ~~business~~ entity combination has been completed in accordance with other applicable ~~IFRSs~~IPSASs. However, the ~~IFRS~~ Standard provides accounting requirements for reacquired rights, contingent liabilities, contingent consideration and indemnification assets.

Disclosure

IN15. ~~The IFRS~~IPSAS XX (ED 41) requires the acquirer to disclose information that enables users of its financial statements to evaluate the nature and financial effect of ~~business~~ entity combinations from exchange transactions that occurred during the current reporting period or after the reporting date but before the financial statements are authorized for issue. After ~~a business~~an entity combination, the acquirer must disclose any adjustments recognized in the current reporting period that relate to ~~business~~ entity combinations that occurred in the current or previous reporting periods.

~~**International Financial Reporting Standard 3**~~
~~***Business Combinations***~~

Objective

1. The objective of this ~~IFRS~~ Standard is to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about ~~a~~ an ~~business~~ entity combination arising from an exchange transaction and its effects. To accomplish that, this ~~IFRS~~ Standard establishes principles and requirements for how the acquirer:

   (a) Recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;

   (b) Recognizes and measures the goodwill acquired in ~~the business~~ an entity combination or a gain from a bargain purchase; and

   (c) Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of ~~the business~~ an entity combination.

2. An entity combination arising from an exchange transaction occurs when an entity acquires an operation or operations from another entity and gives, directly in exchange, approximately equal value in the form of cash or other consideration.

Scope

~~2~~3. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this ~~This IFRS~~ Standard ~~applies~~ to a transaction or other event that meets the definition of ~~a business~~ an entity combination arising from an exchange transaction. This ~~IFRS~~ Standard does not apply to:

   (a) An entity combination arising from a non-exchange transaction (paragraph AG3 provides related application guidance).

   (~~a~~b) The formation of a joint venture.

   (~~b~~c) The acquisition of an asset or a group of assets that does not constitute ~~a~~ an ~~business~~operation. In such cases the acquirer shall identify and recognize the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets in ~~IAS 38~~ IPSAS XX (ED 40), "Intangible Assets") and liabilities assumed. The cost of the group shall be allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill.

   (~~c~~d) A combination of entities or ~~businesses~~ operations under common control (paragraphs ~~B1–B4~~ AG4–AG7 provide related application guidance).

4. This Standard does not apply to entity combinations arising from non-exchange transactions either under common control or not under common control. The International Public Sector Accounting Standards Board (IPSASB) proposes to address this issue in a separate Standard.

5. Where the transaction or event creating an entity combination has an exchange component and a non-exchange component, the acquirer recognizes the exchange component of the combination according to the principles and requirements of this Standard. The appropriate accounting treatment for the non-exchange component of the combination is determined by using the hierarchy in IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors." In determining whether an entity combination has identifiable exchange and non-exchange components, professional judgment is exercised. Where it is not possible to distinguish and separate exchange and non-exchange components of an entity combination, the entity should determine whether or not, in substance, the combination is that of an exchange or non-exchange entity combination.

6. **This Standard applies to all public sector entities other than Government Business Enterprises (GBEs).**

7. The "Preface to International Public Sector Accounting Standards" issued by the IPSASB explains that GBEs apply International Financial Reporting Standards (IFRSs), which are issued by the International Accounting Standards Board (IASB).

Identifying ~~a business~~ an entity combination

~~3~~8. **An entity shall determine whether a transaction or other event is ~~a business~~ an entity combination by applying the definition in this ~~IFRS~~Standard, which requires that the assets acquired and liabilities assumed constitute ~~a business~~an operation. If the assets acquired are not ~~a business~~an operation, the reporting entity shall account for the transaction or other event as an asset acquisition. Paragraphs ~~B5–B12~~ AG8–AG15 provide guidance on identifying ~~a business~~ an entity combination and the definition of ~~a business~~an operation.**

The acquisition method

~~4~~9. **An entity shall account for each ~~business~~ entity combination arising from an exchange transaction by applying the acquisition method.**

~~5~~10. Applying the acquisition method requires:

(a) Identifying the acquirer;

(b) Determining the acquisition date;

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

(d) Recognizing and measuring goodwill or a gain from a bargain purchase.

Identifying the acquirer

~~6~~11. **For each ~~business~~ entity combination arising from an exchange transaction, one of the combining entities shall be identified as the acquirer.**

~~7~~12. The guidance in ~~*IAS 27 Consolidated and Separate Financial Statements*~~ IPSAS 6, "Consolidated and Separate Financial Statements" shall be used to identify the acquirer—

the entity that obtains control of the acquiree. If ~~a business~~ an entity combination has occurred but applying the guidance in ~~IAS 27~~ IPSAS 6 does not clearly indicate which of the combining entities is the acquirer, the factors in paragraphs ~~B14—B18~~ AG17–AG21 shall be considered in making that determination.

Determining the acquisition date

~~8~~13. **The acquirer shall identify the acquisition date, which is the date on which it obtains control of the acquiree.**

~~9~~14. The date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree—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 acquiree on a date before the closing date. An acquirer shall consider all pertinent facts and circumstances in identifying the acquisition date.

Recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

Recognition principle

~~10~~15. **As of the acquisition date, the acquirer shall recognize, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. Recognition of identifiable assets acquired and liabilities assumed is subject to the conditions specified in paragraphs ~~11~~ 16 and ~~12~~17.**

Recognition conditions

~~11~~16. 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 *Framework for the Preparation and Presentation of Financial Statements*~~ IPSAS 1, "Presentation of Financial Statements" at the acquisition date. 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 acquiree or to terminate the employment of or relocate an acquiree's employees are not liabilities at the acquisition date. Therefore, the acquirer does not recognize those costs as part of applying the acquisition method. Instead, the acquirer recognizes those costs in its post-combination financial statements in accordance with other ~~IFRSs~~IPSASs.

~~12~~17. 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 acquiree (or its former *owners*) exchanged in the ~~business~~ entity combination transaction rather than the result of separate transactions. The acquirer shall apply the guidance in paragraphs ~~51–53~~ 56 – 58 to determine which assets acquired or liabilities assumed are part of the exchange for the acquiree and which, if any, are the result of separate transactions to be accounted for in accordance with their nature and the applicable ~~IFRSs~~IPSASs.

~~13~~18. The acquirer's application of the recognition principle and conditions may result in recognizing some assets and liabilities that the acquiree had not previously recognized as assets and liabilities in its financial statements. For example, the acquirer recognizes the acquired identifiable intangible assets, such as a brand name, a patent or ~~a~~ lists of customers or users of a service ~~relationship~~, that the acquiree did not recognize as assets in its financial statements because it developed them internally and charged the related costs to expense.

19. Where the acquirer acquires the power to grant rights or the power to tax, this power does not satisfy the specified criteria for recognition as an intangible asset. Accordingly, these powers are not recognized by the acquirer.

~~14~~20. Paragraphs ~~B28–B40~~ AG22–AG34 provide guidance on recognizing operating leases and intangible assets. Paragraphs ~~22–28~~ 28 – 35 specify the types of identifiable assets and liabilities that include items for which this ~~IFRS~~ Standard provides limited exceptions to the recognition principle and conditions.

Classifying or designating identifiable assets acquired and liabilities assumed in ~~a business~~ an entity combination

~~15~~21. **At the acquisition date, the acquirer shall classify or designate the identifiable assets acquired and liabilities assumed as necessary to apply other ~~IFRSs~~ IPSASs subsequently. The acquirer shall make those classifications or designations on the basis of the ~~contractual terms~~terms of the contract or other binding arrangement, economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the acquisition date.**

~~16~~22. In some situations, ~~IFRSs~~ IPSASs provide for different accounting depending on how an entity classifies or designates a particular asset or liability. Examples of classifications or designations that the acquirer shall make on the basis of the pertinent conditions as they exist at the acquisition date include but are not limited to:

(a) Classification of particular financial assets and liabilities as a financial asset or liability at fair value through ~~profit or loss~~surplus or deficit, or as a financial asset available for sale or held to maturity, in accordance with ~~IAS 39 *Financial Instruments: Recognition and Measurement*~~IPSAS XX (ED 38), "Financial Instruments: Recognition and Measurement";

(b) Designation of a derivative instrument as a hedging instrument in accordance with ~~IAS 39~~IPSAS XX (ED 38); and

(c) Assessment of whether an embedded derivative should be separated from the host contract in accordance with ~~IAS 39~~ IPSAS XX (ED 38) (which is a matter of 'classification' as this ~~IFRS~~ Standard uses that term).

~~17~~23. This ~~IFRS~~ Standard provides two exceptions to the principle in paragraph ~~15~~21:

(a) Classification of a lease contract as either an operating lease or a finance lease in accordance with ~~IAS 17 *Leases*~~IPSAS 13, "Leases"; and

(b) Classification of a contract as an insurance contract in accordance with ~~IFRS 4 *Insurance Contracts*~~the relevant international or national accounting standard dealing with insurance contracts.

The acquirer shall classify those contracts on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract 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

~~18~~24. **The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.**

~~19~~25. For each ~~business~~ entity combination, the acquirer shall 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.

~~20~~26. Paragraphs ~~B41–B45~~ AG35–AG39 provide guidance on measuring the fair value of particular identifiable assets and a non-controlling interest in an acquiree. Paragraphs ~~24–31~~ 31 – 37 specify the types of identifiable assets and liabilities that include items for which this ~~IFRS~~ Standard provides limited exceptions to the measurement principle.

Exceptions to the recognition or measurement principles

~~21~~27. This ~~IFRS~~ Standard provides limited exceptions to its recognition and measurement principles. Paragraphs ~~22–31~~ 28 – 37 specify both the particular items for which exceptions are provided and the nature of those exceptions. The acquirer shall account for those items by applying the requirements in paragraphs ~~22–31~~28 – 37, which will result in some items being:

(a) Recognized either by applying recognition conditions in addition to those in paragraphs ~~11~~ 16 and ~~12~~ 17 or by applying the requirements of other ~~IFRSs~~IPSASs, 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

~~22~~28. ~~*IAS 37 Provisions, Contingent Liabilities and Contingent Assets*~~ IPSAS 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 recognized 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.

~~23~~29. The requirements in ~~IAS 37~~ IPSAS 19 do not apply in determining which contingent liabilities to recognize as of the acquisition date. Instead, the acquirer shall recognize as of the acquisition date a contingent liability assumed in ~~a business~~ an entity combination if it is a present obligation that arises from past events and its fair value can be measured reliably. Therefore, contrary to ~~IAS 37~~IPSAS 19, the acquirer recognizes a contingent liability assumed in ~~a business~~ an entity combination at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Paragraph ~~56~~ 61 provides guidance on the subsequent accounting for contingent liabilities.

30. The scope of IPSAS 19 excludes provisions and contingent liabilities arising from social benefits from non-exchange transactions. The requirements in paragraph 28 therefore do not apply in determining whether to recognize a contingent liability arising from social benefits from non-exchange transactions.

Exceptions to both the recognition and measurement principles

Income taxes

~~24~~31. ~~The~~ Where the acquiree is liable for income taxes, the acquirer shall recognize and measure a deferred tax asset or liability arising from the assets acquired and liabilities assumed in ~~a business~~ an entity combination in accordance with ~~IAS 12 *Income Taxes*~~the relevant international or national accounting standard dealing with income taxes.

~~25~~32. Where the acquiree is liable for income taxes, the ~~The~~ acquirer shall account for the potential tax effects of temporary differences and carryforwards of an acquiree that exist at the acquisition date or arise as a result of the acquisition in accordance with the relevant international or national accounting standard dealing with income taxes~~IAS 12~~.

Employee benefits

~~26~~33. The acquirer shall recognize and measure a liability (or asset, if any) related to the acquiree's employee benefit arrangements in accordance with ~~IAS 19 *Employee Benefits*~~IPSAS 25, "Employee Benefits."

Indemnification assets

~~27~~34. The seller in ~~a business~~ an entity combination 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 shall recognize an indemnification asset at the same time that it recognizes 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 recognized at the acquisition date and measured at its acquisition-date fair value, the acquirer shall recognize 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 ~~B41~~ AG35 provides related application guidance).

~~28~~35. 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 recognized 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 shall be recognized 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 in the terms of the contract or other binding arrangement on the indemnified amount. Paragraph ~~57~~ 62 provides guidance on the subsequent accounting for an indemnification asset.

Exceptions to the measurement principle

Reacquired rights

~~29~~36. The acquirer shall measure the value of a reacquired right recognized as an intangible asset on the basis of the remaining ~~contractual~~ term of the related contract or other binding arrangement regardless of whether market participants would consider potential ~~contractual~~ renewals of the contract or other binding arrangement in determining its fair value. Paragraphs ~~B35~~ AG29 and ~~B36~~ AG30 provide related application guidance.

~~*Share-based payment awards*~~

~~30 The acquirer shall measure a liability or an equity instrument related to the replacement of an acquiree's share-based payment awards with share-based payment awards of the acquirer in accordance with the method in IFRS 2 *Share-based Payment*. (This IFRS refers to the result of that method as the 'market-based measure' of the award.)~~

Assets held for sale

~~31~~37. The acquirer shall measure an acquired non-current asset (or disposal group) that is classified as held for sale at the acquisition date in accordance with ~~IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*~~ the relevant international or national accounting standard dealing with non-current assets held for sale and discontinued operations~~at fair value less costs to sell in accordance with paragraphs 15–18 of that IFRS~~.

Recognizing and measuring goodwill or a gain from a bargain purchase

~~32~~38. **The acquirer shall recognize goodwill as of the acquisition date measured as the excess of (a) over (b) below:**

(a) **The aggregate of:**

(i) **The consideration transferred measured in accordance with this ~~IFRS~~Standard, which generally requires acquisition-date fair value (see paragraph ~~37~~43);**

(ii) **The amount of any non-controlling interest in the acquiree measured in accordance with this ~~IFRS~~Standard; and**

(iii) **In ~~a business~~ an entity combination achieved in stages (see paragraphs ~~41~~ 47 and ~~42~~48), the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.**

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

Paragraphs AG40, AG41 and AG52 provide related application guidance. The subsequent measurement and accounting for goodwill is addressed in IPSAS 26, "Impairment of Cash-Generating Assets" and IPSAS XX (ED 40), "Intangible Assets."

~~33~~39. In ~~a business~~ an entity combination in which the acquirer and the acquiree (or its former owners) exchange only equity interests, the acquisition-date fair value of the acquiree's equity interests may be more reliably measurable than the acquisition-date fair value of the acquirer's equity interests. If so, the acquirer shall determine the amount of goodwill by using the acquisition-date fair value of the acquiree's equity interests instead of the acquisition-date fair value of the equity interests transferred. To determine the amount of goodwill in ~~a business~~ an entity combination ~~in which no consideration is transferred~~achieved by indirect acquisition, the acquirer shall use the acquisition-date fair value of the acquirer's interest in the acquiree determined using a valuation technique in place of the acquisition-date fair value of the consideration transferred (paragraph ~~32~~38(a)(i)). Paragraphs ~~B46–B49~~ AG40–AG45 provide related application guidance.

Bargain purchases

~~34~~40. Occasionally, an acquirer will make a bargain purchase, which is ~~a business~~ an entity combination in which the amount in paragraph ~~32~~38(b) exceeds the aggregate of the amounts specified in paragraph ~~32~~38(a). If that excess remains after applying the requirements in paragraph ~~36~~42, the acquirer shall recognize the resulting gain in ~~profit or loss~~ surplus or deficit on the acquisition date. The gain shall be attributed to the acquirer.

~~35~~41. A bargain purchase might happen, for example, in ~~a business~~ an entity combination that is a forced sale in which the seller is acting under compulsion. However, the recognition or measurement exceptions for particular items discussed in paragraphs ~~22–31~~ 28 – 37 may also result in recognizing a gain (or change the amount of a recognized gain) on a bargain purchase.

~~36~~42. Before recognizing a gain on a bargain purchase, the acquirer shall reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and shall recognize any additional assets or liabilities that are identified in that review. The

acquirer shall then review the procedures used to measure the amounts this ~~IFRS~~ Standard requires to be recognized at the acquisition date for all of the following:

(a) The identifiable assets acquired and liabilities assumed;

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

(c) For ~~a business~~ an entity combination achieved in stages, the acquirer's previously held equity interest in the acquiree; 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.

Consideration transferred

~~37~~43. The consideration transferred in ~~a business~~ an entity combination shall be measured at fair value, which shall 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 acquiree and the equity interests issued by the acquirer. ~~(However, any portion of the acquirer's share-based payment awards exchanged for awards held by the acquiree's employees that is included in consideration transferred in the business combination shall be measured in accordance with paragraph 30 rather than at fair value.)~~ Examples of potential forms of consideration include cash, other assets, ~~a business~~ an operation or a ~~subsidiary~~ controlled entity of the acquirer, contingent consideration, ordinary or preference equity instruments, options, warrants, ~~and~~ member interests of mutual entities and other owner interests.

~~38~~44. 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 ~~a business~~ an operation of the acquirer). If so, the acquirer shall remeasure the transferred assets or liabilities to their fair values as of the acquisition date and recognize the resulting gains or losses, if any, in ~~profit or loss~~surplus or deficit. However, sometimes the transferred assets or liabilities remain within the combined entity after the ~~business~~ entity combination (for example, because the assets or liabilities were transferred to the acquiree rather than to its former owners), and the acquirer therefore retains control of them. In that situation, the acquirer shall measure those assets and liabilities at their carrying amounts immediately before the acquisition date and shall not recognize a gain or loss in ~~profit or loss~~ surplus or deficit on assets or liabilities it controls both before and after the ~~business~~ entity combination.

Contingent consideration

~~39~~45. The consideration the acquirer transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement (see paragraph ~~37~~43). The acquirer shall recognize the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree.

~~40~~46. The acquirer shall classify an obligation to pay contingent consideration as a liability or as net assets/equity on the basis of the definitions of an equity instrument and a financial

liability in paragraph ~~11~~ 9 of ~~IAS 32 *Financial Instruments: Presentation*~~ IPSAS XX (ED 37), "Financial Instruments: Presentation," or other applicable ~~IFRSs~~IPSASs. The acquirer shall classify as an asset a right to the return of previously transferred consideration if specified conditions are met. Paragraph ~~58~~ 63 provides guidance on the subsequent accounting for contingent consideration.

Additional guidance for applying the acquisition method to particular types of ~~business~~ entity combinations

~~A business~~ An entity combination achieved in stages

~~41~~47. An acquirer sometimes obtains control of an acquiree in which it held an equity interest immediately before the acquisition date. For example, on December 31, 20X1, Entity A holds a 35 per cent non-controlling equity interest in Entity B. On that date, Entity A purchases an additional 40 per cent interest in Entity B, which gives it control of Entity B. This ~~IFRS~~ Standard refers to such a transaction as ~~a business~~ an entity combination achieved in stages, sometimes also referred to as a step acquisition.

~~42~~48. In ~~a business~~ an entity combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in ~~profit or loss~~surplus or deficit. In prior reporting periods, the acquirer may have recognized changes in the value of its equity interest in the acquiree directly in ~~other comprehensive income~~ net assets/equity (for example, because the investment was classified as available for sale). If so, the amount that was recognized directly in ~~other comprehensive income~~ net assets/equity shall be recognized on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

~~A business~~ An entity combination achieved ~~without the transfer of consideration~~by indirect acquisition

~~43~~49. An acquirer sometimes obtains control of an acquiree ~~without transferring consideration~~by indirect acquisition. The acquisition method of accounting for ~~a business~~ an entity combination applies to those combinations. Such circumstances include~~:(a) The~~ the acquiree ~~repurchases~~ repurchasing a sufficient number of its own shares for an existing investor (the acquirer) to obtain control.

~~(b) Minority veto rights lapse that previously kept the acquirer from controlling an acquiree in which the acquirer held the majority voting rights.(c) The acquirer and acquiree agree to combine their businesses by contract alone. The acquirer transfers no consideration in exchange for control of an acquiree and holds no equity interests in the acquiree, either on the acquisition date or previously. Examples of business combinations achieved by contract alone include bringing two businesses together in a stapling arrangement or forming a dual listed corporation. 44 In a business combination achieved by contract alone, the acquirer shall attribute to the owners of the acquiree the amount of the acquiree's net assets recognised in accordance with this IFRS. In other words, the equity interests in the acquiree 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 equity interests in the acquiree are attributed to the non-controlling interest.~~

Measurement period

~~45~~50. **If the initial accounting for ~~a business~~ an entity combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognized 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 recognized as of that date. During the measurement period, the acquirer shall also recognize 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 shall not exceed one year from the acquisition date.**

~~46~~51. The measurement period is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognized for ~~a business~~ an entity combination. 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 ~~IFRS~~Standard:

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

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

(c) In ~~a business~~ an entity combination achieved in stages, the equity interest in the acquiree previously held by the acquirer; and

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

~~47~~52. The acquirer shall consider all pertinent factors in determining whether information obtained after the acquisition date should result in an adjustment to the provisional amounts recognized 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 determined at that date is likely to indicate an error in the provisional amount.

~~48~~53. The acquirer recognizes an increase (decrease) in the provisional amount recognized 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 acquiree's facilities, part or all of which are covered by the acquiree'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 recognized 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 recognized for the claim receivable from the insurer.

~~49~~54. During the measurement period, the acquirer shall recognize adjustments to the provisional amounts as if the accounting for the ~~business~~ entity combination had been completed at the acquisition date. Thus, the acquirer shall revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation, amortization or other ~~income~~ revenue effects recognized in completing the initial accounting.

~~50~~55. After the measurement period ends, the acquirer shall revise the accounting for ~~a business~~ an entity combination only to correct an error in accordance with ~~IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*~~IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors."

Determining what is part of the ~~business~~ entity combination transaction

~~51~~56. **The acquirer and the acquiree may have a pre-existing relationship or other arrangement before negotiations for the ~~business~~ entity combination began, or they may enter into an arrangement during the negotiations that is separate from the ~~business~~ entity combination. In either situation, the acquirer shall identify any amounts that are not part of what the acquirer and the acquiree (or its former owners) exchanged in the ~~business~~ entity combination, i.e. amounts that are not part of the exchange for the acquiree. The acquirer shall recognize as part of applying the acquisition method only the consideration transferred for the acquiree and the assets acquired and liabilities assumed in the exchange for the acquiree. Separate transactions shall be accounted for in accordance with the relevant ~~IFRSs~~IPSASs.**

~~52~~57. 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 acquiree (or its former owners) before the combination, 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 acquiree;

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

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

Paragraphs B50–B62 AG46–AG51 provide related application guidance.

Acquisition-related costs

5358. Acquisition-related costs are costs the acquirer incurs to effect a business an entity combination. 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 shall 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 shall be recognized in accordance with IAS 32 IPSAS XX (ED 37) and IAS 39IPSAS XX (ED 38).

Subsequent measurement and accounting

5459. **In general, an acquirer shall subsequently measure and account for assets acquired, liabilities assumed or incurred and equity instruments issued in a business an entity combination in accordance with other applicable IFRSs IPSASs for those items, depending on their nature. However, this IFRS Standard provides guidance on subsequently measuring and accounting for the following assets acquired, liabilities assumed or incurred and equity instruments issued in a business an entity combination:**

(a) **Reacquired rights;**

(b) **Contingent liabilities recognized as of the acquisition date;**

(c) **Indemnification assets; and**

(d) **Contingent consideration.**

Paragraph B63 AG52 provides related application guidance.

Reacquired rights

5560. A reacquired right recognized as an intangible asset shall be amortised over the remaining contractual period of the contract or other binding arrangement in which the right was granted. An acquirer that subsequently sells a reacquired right to a third party shall include the carrying amount of the intangible asset in determining the gain or loss on the sale.

Contingent liabilities

5661. After initial recognition and until the liability is settled, cancelled or expires, the acquirer shall measure a contingent liability recognized in a business an entity combination at the higher of:

(a) The amount that would be recognized in accordance with IAS 37IPSAS 19; and

(b) The amount initially recognized less, if appropriate, cumulative amortization recognized in accordance with ~~IAS 18 *Revenue*~~IPSAS 9, "Revenue from Exchange Transactions."

This requirement does not apply to contracts accounted for in accordance with ~~IAS 39~~IPSAS XX, (ED 38).

Indemnification assets

~~57~~62. At the end of each subsequent reporting period, the acquirer shall measure an indemnification asset that was recognized at the acquisition date on the same basis as the indemnified liability or asset, subject to any ~~contractual~~ limitations in the terms of the contract or other binding arrangement 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 shall derecognize the indemnification asset only when it collects the asset, sells it or otherwise loses the right to it.

Contingent consideration

~~58~~63. Some changes in the fair value of contingent consideration that the acquirer recognizes 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 ~~45–49~~50 – 54. However, changes resulting from events after the acquisition date, such as meeting an earnings target, reaching a specified share price or reaching a milestone on a research and development project, are not measurement period adjustments. The acquirer shall account for changes in the fair value of contingent consideration that are not measurement period adjustments as follows:

(a) Contingent consideration classified as net assets/equity shall not be remeasured and its subsequent settlement shall be accounted for within net assets/equity.

(b) Contingent consideration classified as an asset or a liability that:

(i) Is a financial instrument and is within the scope of ~~IAS 39~~ IPSAS XX (ED 38) shall be measured at fair value, with any resulting gain or loss recognized either in ~~profit or loss~~ surplus or deficit or directly in ~~other comprehensive income~~ net assets/equity in accordance with that ~~IFRS~~Standard.

(ii) Is not within the scope of ~~IAS 39~~IPSAS XX (ED 38) shall be accounted for in accordance with ~~IAS 37~~ IPSAS 19 or other ~~IFRSs~~ IPSASs as appropriate.

Disclosures

~~59~~64. **The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of ~~a business~~ an entity combination that occurs either:**

(a) **During the current reporting period; or**

(b) **After the end of the reporting period but before the financial statements are authorized for issue.**

~~60~~65. To meet the objective in paragraph ~~59~~64, the acquirer shall disclose the information specified in paragraphs ~~B64—B66~~AG53–AG55.

~~61~~66. **The acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognized in the current reporting period that relate to ~~business~~ entity combinations that occurred in the period or previous reporting periods.**

~~62~~67. To meet the objective in paragraph ~~61~~66, the acquirer shall disclose the information specified in paragraph ~~B67~~AG56.

~~63~~68. If the specific disclosures required by this and other ~~IFRSs~~ IPSASs do not meet the objectives set out in paragraphs ~~59~~ 64 and ~~61~~66, the acquirer shall disclose whatever additional information is necessary to meet those objectives.

Effective date and transition

Effective date

~~64~~69. This ~~IFRS~~ Standard shall be applied prospectively to ~~business~~ entity combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after ~~1 July 2009~~Month Day, Year. Earlier application is permitted. ~~However, this IFRS shall be applied only at the beginning of an annual reporting period that begins on or after 30 June 2007.~~ If an entity applies this ~~IFRS~~ Standard before Month Day, Year~~1 July 2009~~, it shall disclose that fact and apply ~~IAS 27~~ IPSAS 6 (as amended in ~~2008~~200X) at the same time.

Transition

~~65~~70. Assets and liabilities that arose from ~~business~~ entity combinations whose acquisition dates preceded the application of this ~~IFRS~~ Standard shall not be adjusted upon application of this ~~IFRS~~Standard.

~~66 An entity, such as a mutual entity, that has not yet applied IFRS 3 and had one or more business combinations that were accounted for using the purchase method shall apply the transition provisions in paragraphs B68 and B69.~~

~~Income taxes~~

~~67 For business combinations in which the acquisition date was before this IFRS is applied, the acquirer shall apply the requirements of paragraph 68 of IAS 12, as amended by this IFRS, prospectively. That is to say, the acquirer shall not adjust the accounting for prior business combinations for previously recognised changes in recognised deferred tax assets. However, from the date when this IFRS is applied, the acquirer shall recognise, as an adjustment to profit or loss (or, if IAS 12 requires, outside profit or loss), changes in recognised deferred tax assets.~~

~~Withdrawal of IFRS 3 (2004)~~

~~68 This IFRS supersedes IFRS 3 *Business Combinations* (as issued in 2004).~~

Appendix A

Defined terms

This appendix is an integral part of the ~~IFRS~~IPSAS.

acquiree
The ~~business or businesses~~ operation or operations that the **acquirer** obtains control of in ~~a~~ an **~~business~~ entity combination**.

acquirer
The entity that obtains control of the **acquiree**.

acquisition date
The date on which the **acquirer** obtains control of the **acquiree**.

~~**business**~~
~~An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.~~

contingent consideration
Usually, an obligation of the **acquirer** to transfer additional assets or **equity interests** to the former owners of an **acquiree** as part of the exchange for **control** of the **acquiree** 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.

~~business~~ entity combination
A transaction or other event in which an **acquirer** obtains control of one or more **~~businesses~~operations**. ~~Transactions sometimes referred to as 'true mergers' or 'mergers of equals' are also **business combinations** as that term is used in this IFRS.~~

equity interests
For the purposes of this ~~IFRS~~Standard, equity interests is used broadly to mean ownership interests of investor-owned entities and owner, member or participant interests of **mutual entities**.

goodwill
An asset representing the future economic benefits or service potential arising from other assets acquired in ~~a~~ an **~~business~~ entity combination** that are not individually identified and separately recognized.

identifiable
An asset is identifiable if it either:

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

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

intangible asset An identifiable non-monetary asset without physical substance.

mutual entity An entity, other than an investor-owned entity, that provides dividends, lower costs or other economic benefits directly to its **owners**, members or participants. For example, a mutual insurance company, a credit union and a co-operative entity are all mutual entities.

non-controlling interest The equity in a ~~subsidiary~~ controlled entity not attributable, directly or indirectly, to a ~~parent~~controlling entity.

operation An integrated set of activities and assets that is conducted and managed for the purpose of achieving an entity's objectives, either by providing economic benefits or service potential.

owners For the purposes of this ~~IFRS~~Standard, owners is used broadly to include holders of **equity interests** of investor-owned entities, ~~and~~ owners or members of, or participants in, **mutual entities**;~~.~~ and interests established by mechanisms other than equity interests, such as a binding arrangement.

Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.

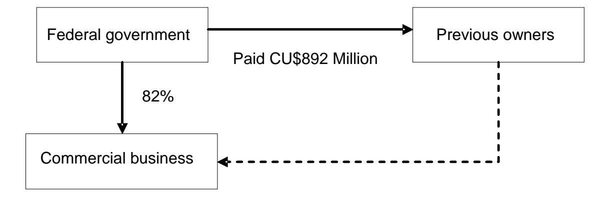
Appendix B

Application guidance

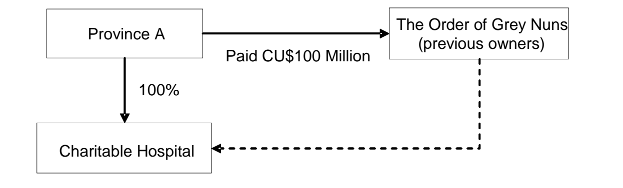
This appendix is an integral part of the ~~IFRS~~~~Standard~~IPSAS.

Scope (application of paragraph 3)

AG1. This Standard applies to a transaction or other event that meets the definition of an entity combination arising from an exchange transaction. For example, a Federal government acquires an operation which is capable of being conducted and managed for the purpose of providing a return. The Federal government acquires an 82% shareholding directly in exchange for consideration transferred of CU892 million, as set out below.

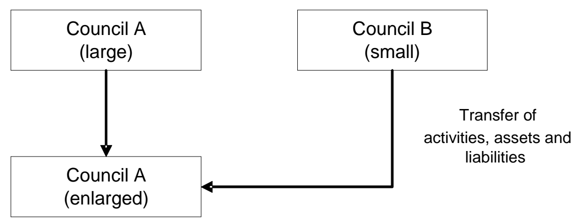


AG2. Another example of an entity combination arising from an exchange transaction is as follows: Province A acquires a charitable hospital which is owned and run by the Order of Grey Nuns, for providing hospital services to the disadvantaged in the community. Province A acquires all of the hospital's activities, assets and liabilities directly in exchange for consideration transferred of CU100 million, as set out below.



Entity combinations arising from a non-exchange transaction (application of paragraph 3(a))

AG3. This Standard does not apply to an entity combination arising from a non-exchange transaction either under common control or not under common control. An entity combination involving entities or operations arising from a non-exchange transaction is an entity combination in which an acquirer receives value from another entity without directly giving approximately equal value in exchange, i.e. the consideration does not approximate the fair value of the resources received. An example of an entity combination from a non-exchange transaction is where a Federal government creates legislation which mandates that a small local government entity, Council B must transfer all its activities, assets and liabilities, without consideration, to an existing local government entity, Council A, as set out below.



~~Business~~ Entity combinations of entities under common control arising from exchange transactions (application of paragraph ~~2(c)~~3(d))

~~B1~~AG4. This ~~IFRS~~ Standard does not apply to a ~~business~~ combination of entities or ~~businesses~~ operations under common control arising from an exchange transaction. ~~A business~~ An entity combination involving entities or ~~businesses~~ operations under common control is ~~a business~~ an entity combination in which all of the combining entities or ~~businesses~~ operations are ultimately controlled by the same party or parties both before and after the ~~business~~ entity combination, and that control is not transitory.

~~B2~~AG5. A group of individuals shall be regarded as controlling an entity when, as a result of contractual or other binding arrangements, they collectively have the power to govern its financial and operating policies so as to obtain benefits from its activities. Therefore, ~~a business~~ an entity combination is outside the scope of this ~~IFRS~~ Standard when the same group of individuals has, as a result of contractual or other binding arrangements, ultimate collective power to govern the financial and operating policies of each of the combining entities so as to obtain benefits from their activities, and that ultimate collective power is not transitory.

~~B3~~AG6. An entity may be controlled by an individual or by a group of individuals acting together under a contractual or other binding arrangement, and that individual or group of individuals may not be subject to the financial reporting requirements of ~~IFRSs~~IPSASs. Therefore, it is not necessary for combining entities to be included as part of the same consolidated financial statements for ~~a business~~ an entity combination to be regarded as one involving entities under common control.

~~B4~~AG7. The extent of non-controlling interests in each of the combining entities before and after ~~the business~~ an entity combination is not relevant to determining whether the combination involves entities under common control. Similarly, the fact that one of the combining entities is a ~~subsidiary~~ controlled entity that has been excluded from the consolidated financial statements is not relevant to determining whether a combination involves entities under common control.

Identifying ~~a business~~ an entity combination (application of paragraph 8~~3~~)

~~B5~~AG8. This ~~IFRS~~ Standard defines ~~a business~~ an entity combination as a transaction or other event in which an acquirer obtains control of one or more ~~businesses~~operations. An acquirer might obtain control of an acquiree in a variety of ways, for example:

(a) By transferring cash, cash equivalents or other assets (including net assets that constitute ~~a business~~an operation);

(b) By incurring liabilities;

(c) By issuing equity interests;

(d) By providing more than one type of consideration; or

(e) ~~Without transferring consideration, including by contract alone~~ By indirect acquisition (see paragraph ~~43~~49).

~~B6~~AG9. ~~A business~~ An entity combination may be structured in a variety of ways for legal, taxation, statutory or other reasons, which include but are not limited to:

(a) One or more ~~businesses~~ operations become ~~subsidiaries~~ controlled entities of an acquirer or the net assets of one or more ~~businesses~~ operations are legally merged into the acquirer;

(b) One combining entity transfers its net assets, or its owners transfer their equity interests, to another combining entity or its owners;

(c) All of the combining entities transfer their net assets, or the owners of those entities transfer their equity interests, to a newly formed entity (sometimes referred to as a roll-up or put-together transaction); or

(d) A group of former owners of one of the combining entities obtains control of the combined entity.

Definition of ~~a business~~ an operation (application of paragraph ~~3~~8)

~~B7~~AG10. ~~A business~~ An operation consists of inputs and processes applied to those inputs that have the ability to create outputs. Although ~~businesses~~ operations usually have outputs, outputs are not required for an integrated set to qualify as ~~a business~~an operation. The three elements of ~~a business~~ 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. Examples include non-current assets (including intangible assets or rights to use non-current assets), intellectual property, the ability to obtain access to necessary materials or rights and employees.

(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. Examples include strategic management processes, operational processes and resource management processes. These processes typically are documented, but an organized workforce having the necessary skills and experience following rules and

conventions may provide the necessary processes that are capable of being applied to inputs to create outputs. (Accounting, billing, payroll and other administrative systems typically are not processes used to create outputs.)

(c) Output: The result of inputs and processes applied to those inputs that provide or have the ability to provide ~~a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants~~economic benefits or service potential, such as providing a commercial return, delivery of goods or services, reducing costs or increasing efficiencies.

~~B8~~AG11. To be capable of being conducted and managed for the purposes defined, an integrated set of activities and assets requires two essential elements—inputs and processes applied to those inputs, which together are or will be used to create outputs. However, ~~a business~~ an operation need not include all of the inputs or processes that the seller used in operating that ~~business~~ operation if market or other participants are capable of acquiring the ~~business~~ operation and continuing to produce outputs, for example, by integrating the ~~business~~ operation with their own inputs and processes.

~~B9~~AG12. The nature of the elements of ~~a business~~ an operation varies by industry and by the structure of an entity's ~~operations (~~activities~~)~~, including the entity's stage of development. Established ~~businesses~~ operations often have many different types of inputs, processes and outputs, whereas new ~~businesses~~ operations often have few inputs and processes and sometimes only a single output (product or service). Nearly all ~~businesses~~ operations also have liabilities, but ~~a business~~ an operation need not have liabilities.

~~B10~~AG13. An integrated set of activities and assets in the development stage might not have outputs. If not, the acquirer should consider other factors to determine whether the set is ~~a business~~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 customers that will purchase the outputs or users that will use the outputs, whom may or may not be required to purchase the outputs.

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

~~B11~~AG14. Determining whether a particular set of assets and activities is ~~a business~~ an operation should be based on whether the integrated set is capable of being conducted and managed as ~~a business~~ an operation by a market or other participant. Thus, in evaluating whether a particular set is ~~a business~~an operation, it is not

relevant whether a seller operated the set as ~~a business~~ an operation or whether the acquirer intends to operate the set as ~~a business~~an operation.

~~B12~~AG15. In the absence of evidence to the contrary, a particular set of assets and activities in which goodwill is present shall be presumed to be ~~a business~~an operation. However, ~~a business~~ an operation need not have goodwill.

Identifying the acquirer (application of paragraphs ~~6~~ 11 and ~~7~~12)

~~B13~~AG16. The guidance in ~~IAS 27 *Consolidated and Separate Financial Statements*~~ IPSAS 6, "Consolidated and Separate Financial Statements" shall be used to identify the acquirer—the entity that obtains control of the acquiree. If ~~a business~~ an entity combination has occurred but applying the guidance in ~~IAS 27~~ IPSAS 6 does not clearly indicate which of the combining entities is the acquirer, the factors in paragraphs ~~B14—B18~~ AG17–AG21 shall be considered in making that determination.

~~B14~~AG17. In ~~a business~~ an entity combination effected primarily by transferring cash or other assets or by incurring liabilities, the acquirer is usually the entity that transfers the cash or other assets or incurs the liabilities.

~~B15~~AG18. In ~~a business~~ an entity combination effected primarily by exchanging equity interests, the acquirer is usually the entity that issues its equity interests. ~~However, in some business combinations, commonly called 'reverse acquisitions', the issuing entity is the acquiree. Paragraphs B19—B27 provide guidance on accounting for reverse acquisitions.~~ Other pertinent facts and circumstances shall also be considered in identifying the acquirer in ~~a business~~ an entity combination effected by exchanging equity interests, including:

(a) *The relative voting rights in the combined entity after the ~~business~~ entity combination*—The acquirer is usually the combining entity whose owners as a group retain or receive the largest portion of the voting rights in the combined entity. In determining which group of owners retains or receives the largest portion of the voting rights, an entity shall consider the existence of any unusual or special voting arrangements and options, warrants or convertible securities.

(b) *The existence of a large minority voting interest in the combined entity if no other owner or organized group of owners has a significant voting interest*—The acquirer is usually the combining entity whose single owner or organized group of owners holds the largest minority voting interest in the combined entity.

(c) *The composition of the governing body of the combined entity*—The acquirer is usually the combining entity whose owners have the ability to elect or appoint or to remove a majority of the members of the governing body of the combined entity.

(d) *The composition of the senior management of the combined entity*—The acquirer is usually the combining entity whose (former) management dominates the management of the combined entity.

(e) *The terms of the exchange of equity interests*—The acquirer is usually the combining entity that pays a premium over the pre-combination fair value of the equity interests of the other combining entity or entities.

~~B16~~AG19. The acquirer is usually the combining entity whose relative size (measured in, for example, assets, revenues or ~~profit~~surplus) is significantly greater than that of the other combining entity or entities.

~~B17~~AG20. In ~~a business~~ an entity combination involving more than two entities, determining the acquirer shall include a consideration of, among other things, which of the combining entities initiated the combination, as well as the relative size of the combining entities.

~~B18~~AG21. A new entity formed to effect ~~a business~~ an entity combination is not necessarily the acquirer. If a new entity is formed to issue equity interests to effect ~~a business~~ an entity combination, one of the combining entities that existed before the ~~business~~ entity combination shall be identified as the acquirer by applying the guidance in paragraphs ~~B13–B17~~AG16–AG20. In contrast, a new entity that transfers cash or other assets or incurs liabilities as consideration may be the acquirer.

~~Reverse acquisitions~~

~~B19 A reverse acquisition occurs when the entity that issues securities (the legal acquirer) is identified as the acquiree for accounting purposes on the basis of the guidance in paragraphs B13–B18. The entity whose equity interests are acquired (the legal acquiree) must be the acquirer for accounting purposes for the transaction to be considered a reverse acquisition. For example, reverse acquisitions sometimes occur when a private operating entity wants to become a public entity but does not want to register its equity shares. To accomplish that, the private entity will arrange for a public entity to acquire its equity interests in exchange for the equity interests of the public entity. In this example, the public entity is the **legal acquirer** because it issued its equity interests, and the private entity is the **legal acquiree** because its equity interests were acquired. However, application of the guidance in paragraphs B13–B18 results in identifying:~~

~~(a) the public entity as the **acquiree** for accounting purposes (the accounting acquiree); and~~

~~(b) the private entity as the **acquirer** for accounting purposes (the accounting acquirer).~~

~~The accounting acquiree must meet the definition of a business for the transaction to be accounted for as a reverse acquisition, and all of the recognition and measurement principles in this IFRS, including the requirement to recognise goodwill, apply.~~

~~Measuring the consideration transferred~~

~~B20 In a reverse acquisition, the accounting acquirer usually issues no consideration for the acquiree. Instead, the accounting acquiree 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 acquiree is based on the number of equity interests the legal subsidiary would have had to issue to give the owners of the legal parent 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 acquiree.~~

~~Preparation and presentation of consolidated financial statements~~

~~B21 Consolidated financial statements prepared following a reverse acquisition are issued under the name of the legal parent (accounting acquiree) but described in the notes as a continuation of the financial statements of the legal subsidiary (accounting acquirer), with one adjustment, which is to adjust retroactively the accounting acquirer's legal capital to reflect the legal capital of the accounting acquiree. That adjustment is required to reflect the capital of the legal parent (the accounting acquiree). Comparative information presented in those consolidated financial statements also is retroactively adjusted to reflect the legal capital of the legal parent (accounting acquiree).~~

~~B22 Because the consolidated financial statements represent the continuation of the financial statements of the legal subsidiary except for its capital structure, the consolidated financial statements reflect:~~

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

~~(b) the assets and liabilities of the legal parent (the accounting acquiree) recognised and measured in accordance with this IFRS.~~

~~(c) the retained earnings and other equity balances of the legal subsidiary (accounting acquirer) **before** the business combination.~~

~~(d) the amount recognised as issued equity interests in the consolidated financial statements determined by adding the issued equity interest of the legal subsidiary (the accounting acquirer) outstanding immediately before the business combination to the fair value of the legal parent (accounting acquiree) determined in accordance with this IFRS. However, the equity structure (ie the number and type of equity interests issued) reflects the equity structure of the legal parent (the accounting acquiree), including the equity interests the legal parent issued to effect the combination. Accordingly, the equity structure of the legal subsidiary (the accounting acquirer) is restated using the exchange ratio established in the acquisition agreement to reflect the number of shares of the legal parent (the accounting acquiree) issued in the reverse acquisition.~~

(e) the non-controlling interest's proportionate share of the legal subsidiary's (accounting acquirer's) pre-combination carrying amounts of retained earnings and other equity interests as discussed in paragraphs B23 and B24.

Non-controlling interest

B23 In a reverse acquisition, some of the owners of the legal acquiree (the accounting acquirer) might not exchange their equity interests for equity interests of the legal parent (the accounting acquiree). 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 acquiree 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 acquiree—not in the results and net assets of the combined entity. Conversely, even though the legal acquirer is the acquiree for accounting purposes, the owners of the legal acquirer have an interest in the results and net assets of the combined entity.

B24 The assets and liabilities of the legal acquiree are measured and recognised in the consolidated financial statements at their pre-combination carrying amounts (see paragraph B22(a)). Therefore, in a reverse acquisition the non-controlling interest reflects the non-controlling shareholders' proportionate interest in the pre-combination carrying amounts of the legal acquiree's net assets even if the non-controlling interests in other acquisitions are measured at their fair value at the acquisition date.

Earnings per share

B25 As noted in paragraph B22(d), the equity structure in the consolidated financial statements following a reverse acquisition reflects the equity structure of the legal acquirer (the accounting acquiree), including the equity interests issued by the legal acquirer to effect the business combination.

B26 In calculating the weighted average number of ordinary shares outstanding (the denominator of the earnings per share calculation) during the period in which the reverse acquisition occurs:

(a) the number of ordinary shares outstanding from the beginning of that period to the acquisition date shall be computed on the basis of the weighted average number of ordinary shares of the legal acquiree (accounting acquirer) outstanding during the period multiplied by the exchange ratio established in the merger agreement; and

(b) the number of ordinary shares outstanding from the acquisition date to the end of that period shall be the actual number of ordinary shares of the legal acquirer (the accounting acquiree) outstanding during that period.

B27 The basic earnings per share for each comparative period before the acquisition date presented in the consolidated financial statements following a reverse acquisition shall be calculated by dividing:

~~(a) the profit or loss of the legal acquiree attributable to ordinary shareholders in each of those periods by~~

~~(b) the legal acquiree's historical weighted average number of ordinary shares outstanding multiplied by the exchange ratio established in the acquisition agreement.~~

Recognizing particular assets acquired and liabilities assumed (application of paragraphs ~~10–13~~15 – 18)

Operating leases

~~B28~~AG22. The acquirer shall recognize no assets or liabilities related to an operating lease in which the acquiree is the lessee except as required by paragraphs ~~B29~~ AG23 and ~~B30~~AG24.

~~B29~~AG23. The acquirer shall determine whether the terms of each operating lease in which the acquiree is the lessee are favorable or unfavorable. The acquirer shall recognize 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 ~~B42~~ AG36 provides guidance on measuring the acquisition-date fair value of assets subject to operating leases in which the acquiree is the lessor.

~~B30~~AG24. 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 gates at an airport or of retail space in a prime shopping area might provide entry into a market or other future economic benefits that qualify as identifiable intangible assets, for example, as a customer relationship. In that situation, the acquirer shall recognize the associated identifiable intangible asset(s) in accordance with paragraph ~~B31~~AG25.

Intangible assets

~~B31~~AG25. The acquirer shall recognize, separately from goodwill, the identifiable intangible assets acquired in ~~a business~~ an entity combination. An intangible asset is identifiable if it meets either the separability criterion or the contractual-legal-binding criterion.

~~B32~~AG26. An intangible asset that meets the contractual-legal-binding criterion is identifiable even if the asset is not transferable or separable from the acquiree or from other rights and obligations. For example:

(a) An acquiree leases a manufacturing 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 contractual-legal-binding criterion for recognition separately from goodwill, even though the acquirer cannot sell or otherwise transfer the lease contract.

(b) An acquiree owns and operates a nuclear power plant. The licence to operate that power plant is an intangible asset that meets the contractual-legal-binding criterion for recognition separately from goodwill, even if the acquirer cannot sell or transfer it separately from the acquired power plant. An acquirer may recognize the fair value of the operating licence 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 acquiree owns a technology patent. It has licensed that patent to others for their exclusive use outside the domestic market, receiving a specified percentage of future foreign revenue in exchange. Both the technology patent and the related license agreement meet the contractual-legal-binding 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.

~~B33~~AG27. The separability criterion means that an acquired intangible asset is capable of being separated or divided from the acquiree and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract or other 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, customer, user and subscriber lists are frequently licensed and thus meet the separability criterion. Even if an acquiree believes its customer lists have characteristics different from other customer lists, the fact that customer lists are frequently licensed generally means that the acquired customer list meets the separability criterion. However, a customer list acquired in ~~a business~~ an entity combination 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 customers.

~~B34~~AG28. An intangible asset that is not individually separable from the acquiree or combined entity meets the separability criterion if it is separable in combination with a related contract or other binding arrangement, identifiable asset or liability. For example:

(a) Market participants exchange deposit liabilities and related depositor relationship intangible assets in observable exchange transactions. Therefore, the acquirer should recognize the depositor relationship intangible asset separately from goodwill.

(b) An acquiree 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 acquiree or combined entity and sold if the related trademark is sold, it meets the separability criterion.

Reacquired rights

~~B35~~AG29. As part of ~~a business~~ an entity combination, an acquirer may reacquire a right that it had previously granted to the acquiree to use one or more of the acquirer's recognized or unrecognized assets. Examples of such rights include a right to use the acquirer's trade name under a franchise agreement or a right to use the acquirer's technology under a technology licensing agreement. A reacquired right is an identifiable intangible asset that the acquirer recognizes separately from goodwill. Paragraph ~~29~~ 36 provides guidance on measuring a reacquired right and paragraph ~~55~~ 60 provides guidance on the subsequent accounting for a reacquired right.

~~B36~~AG30. If the terms of the contract or other 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 shall recognize a settlement gain or loss. Paragraph ~~B52~~ AG48 provides guidance for measuring that settlement gain or loss.

Assembled workforce and other items that are not identifiable

~~B37~~AG31. 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 ~~business~~ operation from the acquisition date. An assembled workforce does not represent the intellectual capital of the skilled workforce—the (often specialized) knowledge and experience that employees of an acquiree bring to their jobs. Because the assembled workforce is not an identifiable asset to be recognized separately from goodwill, any value attributed to it is subsumed into goodwill.

~~B38~~AG32. The acquirer also subsumes into goodwill any value attributed to items that do not qualify as assets at the acquisition date. For example, the acquirer might attribute value to potential contracts the acquiree is negotiating with prospective new customers at the acquisition date. Because those potential contracts or other binding arrangements are not themselves assets at the acquisition date, the acquirer does not recognize them separately from goodwill. The acquirer will determine whether any goodwill recognized is impaired in accordance with IPSAS 21, "Impairment of Non-Cash-Generating Assets" and IPSAS 26, "Impairment of Cash-Generating Assets," as appropriate. The acquirer should not subsequently reclassify the value of those contracts or other 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 recognizable intangible asset existed at the acquisition date.

~~B39~~AG33. After initial recognition, an acquirer accounts for intangible assets acquired in ~~a business~~ an entity combination in accordance with the provisions of ~~IAS 38 Intangible Assets~~IPSAS XX (ED 40), "Intangible Assets." However, as described in

paragraph ~~3~~5 of ~~IAS 38~~IPSAS XX (ED 40), the accounting for some acquired intangible assets after initial recognition is prescribed by other ~~IFRSs~~IPSASs.

~~B40~~AG34. The identifiability criteria determine whether an intangible asset is recognized separately from goodwill. However, the criteria neither provide guidance for measuring the fair value of an intangible asset nor restrict the assumptions used in estimating the fair value of an intangible asset. For example, the acquirer would take into account assumptions that market or other participants would consider, such as expectations of future contract or other binding arrangement renewals, in measuring fair value. It is not necessary for the renewals themselves to meet the identifiability criteria. (However, see paragraph ~~29~~36, which establishes an exception to the fair value measurement principle for reacquired rights recognized in ~~a business~~ an entity combination.) Paragraphs ~~36~~ 45 and ~~37~~ 46 of ~~IAS 38~~ IPSAS XX (ED 40) provide guidance for determining whether intangible assets should be combined into a single unit of account with other intangible or tangible assets.

Measuring the fair value of particular identifiable assets and a non-controlling interest in an acquiree (application of paragraphs ~~18~~ 24 and ~~19~~25)

Assets with uncertain cash flows (valuation allowances)

~~B41~~AG35. The acquirer shall not recognize a separate valuation allowance as of the acquisition date for assets acquired in ~~a business~~ an entity combination 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 ~~IFRS~~ Standard requires the acquirer to measure acquired receivables, including loans, at their acquisition-date fair values, the acquirer does not recognize a separate valuation allowance for the contractual or other binding arrangement cash flows that are deemed to be uncollectible at that date.

Assets subject to operating leases in which the acquiree is the lessor

~~B42~~AG36. In measuring the acquisition-date fair value of an asset such as a building or a patent that is subject to an operating lease in which the acquiree is the lessor, the acquirer shall take into account the terms of the lease. In other words, the acquirer does not recognize a separate asset or liability if the terms of an operating lease are either favorable or unfavorable when compared with market terms as paragraph ~~B29~~ AG23 requires for leases in which the acquiree 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

~~B43~~AG37. For competitive or other reasons, the acquirer may intend not to use an acquired asset, for example, a research and development intangible asset, or it may intend to use the asset in a way that is different from the way in which other market participants would use it. Nevertheless, the acquirer shall measure the asset at fair value determined in accordance with its use by other market participants.

Non-controlling interest in an acquiree

~~B44~~AG38. This ~~IFRS~~ Standard allows the acquirer to measure a non-controlling interest in the acquiree 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 active market prices for the equity shares not held by the acquirer. In other situations, however, an active market price 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.

~~B45~~AG39. The fair values of the acquirer's interest in the acquiree 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 acquiree or, conversely, the inclusion of a discount for lack of control (also referred to as a minority discount) in the per-share fair value of the non-controlling interest.

Measuring goodwill or a gain from a bargain purchase

Measuring goodwill on the acquisition of a non-cash-generating operation (application of paragraph 38)

AG40. Paragraph 34A in IPSAS 21, "Impairment of Non-Cash-Generating Assets" does not provide for the establishment of non-cash-generating units or the allocation of service potential, including service potential arising from goodwill, to a non-cash-generating unit for purposes of impairment testing. IPSAS 21 requires all non-cash-generating assets to be tested for impairment on an individual asset basis.

AG41. Occasionally, an acquirer will make an acquisition of a non-cash-generating operation, in which the aggregate of the amounts in paragraph 38(a) exceeds the amount in paragraph 38(b). Before recognizing this amount, the acquirer shall reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and shall recognize any additional assets or liabilities that are identified in that review. If an excess remains after applying these requirements, the acquirer shall recognize the resulting expense in surplus or deficit on the acquisition date.

Measuring the acquisition-date fair value of the acquirer's interest in the acquiree using valuation techniques (application of paragraph ~~33~~39)

~~B46~~AG42. In ~~a business~~ an entity combination achieved ~~without the transfer of consideration~~by indirect acquisition, the acquirer must substitute the acquisition-date fair value of its interest in the acquiree for the acquisition-date fair value of the consideration transferred to measure goodwill or a gain on a bargain purchase (see paragraphs ~~32–34~~38 – 40). The acquirer should measure the acquisition-date fair value of its interest in the acquiree using one or more valuation techniques that are appropriate in the circumstances and for which sufficient data are available. If more than one valuation technique is used, the acquirer should evaluate the results of the

techniques, considering the relevance and reliability of the inputs used and the extent of the available data.

Special considerations in applying the acquisition method to combinations of mutual entities (application of paragraph ~~33~~39)

~~B47~~AG43. When two mutual entities combine, the fair value of the equity or member interests in the acquiree (or the fair value of the acquiree) may be more reliably measurable than the fair value of the member interests transferred by the acquirer. In that situation, paragraph ~~33~~ 39 requires the acquirer to determine the amount of goodwill by using the acquisition-date fair value of the acquiree's equity interests instead of the acquisition-date fair value of the acquirer's equity interests transferred as consideration. In addition, the acquirer in a combination of mutual entities shall recognize the acquiree's net assets as a direct addition to capital or net assets/equity in its statement of financial position, not as an addition to ~~retained earnings~~accumulated surplus or deficit, which is consistent with the way in which other types of entities apply the acquisition method.

~~B48~~AG44. Although they are similar in many ways to other ~~businesses~~operations, mutual entities have distinct characteristics that arise primarily because their members are both customers and owners. Members of mutual entities generally expect to receive benefits for their membership, often in the form of reduced fees charged for goods and services or patronage dividends. The portion of patronage dividends allocated to each member is often based on the amount of business the member did with the mutual entity during the year.

~~B49~~AG45. A fair value measurement of a mutual entity should include the assumptions that market participants would make about future member benefits as well as any other relevant assumptions market participants would make about the mutual entity. For example, an estimated cash flow model may be used to determine the fair value of a mutual entity. The cash flows used as inputs to the model should be based on the expected cash flows of the mutual entity, which are likely to reflect reductions for member benefits, such as reduced fees charged for goods and services.

Determining what is part of the ~~business~~ entity combination transaction (application of paragraphs ~~51~~56 and ~~52~~57)

~~B50~~AG46. 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 acquiree or whether the transaction is separate from the ~~business~~ entity combination:

(a) **The reasons for the transaction**—Understanding the reasons why the parties to the combination (the acquirer and the acquiree and their owners, directors, governing body 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 acquiree 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 acquiree. Accordingly, the acquirer would account for that portion separately from the ~~business~~ entity combination.

(b) Who initiated the transaction—Understanding who initiated the transaction may also provide insight into whether it is part of the exchange for the acquiree. 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 acquiree or its former owners before the combination. On the other hand, a transaction or arrangement initiated by the acquiree 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 ~~business~~ entity combination 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 acquiree. For example, a transaction between the acquirer and the acquiree that takes place during the negotiations of the terms of ~~a business~~ an entity combination may have been entered into in contemplation of the ~~business~~ entity combination to provide future economic benefits or service potential to the acquirer or the combined entity. If so, the acquiree or its former owners before the ~~business~~ entity combination 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 acquiree in ~~a business~~ an entity combination (application of paragraph ~~52~~57(a))

~~B51~~AG47. The acquirer and acquiree may have a relationship that existed before they contemplated the ~~business~~ entity combination, referred to here as a 'pre-existing relationship'. A pre-existing relationship between the acquirer and acquiree may be contractual (for example, vendor and customer or licensor and licensee) or non-contractual (for example, plaintiff and defendant).

~~B52~~AG48. If the ~~business~~ entity combination in effect settles a pre-existing relationship, the acquirer recognizes a gain or loss, measured as follows:

(a) For a pre-existing non-contractual relationship (such as a lawsuit), fair value.

(b) For a pre-existing contractual relationship, the lesser of (i) and (ii):

(i) The amount by which the contract 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 contract is a contract that is unfavorable in terms of current market terms. It is not necessarily an onerous contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it.)

(ii) The amount of any stated settlement provisions in the contract available to the counterparty to whom the contract is unfavorable.

If (ii) is less than (i), the difference is included as part of the ~~business~~ entity combination accounting.

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

~~B53~~AG49. A pre-existing relationship may be a contract or other binding arrangement that the acquirer recognizes as a reacquired right. If the contract includes terms that are favorable or unfavorable when compared with pricing for current market transactions for the same or similar items, the acquirer recognizes, separately from the ~~business~~ entity combination, a gain or loss for the effective settlement of the contract or other binding arrangement, measured in accordance with paragraph ~~B52~~AG48.

Arrangements for contingent payments to employees or ~~selling shareholders~~ former owners (application of paragraph ~~52~~57(b))

~~B54~~AG50. Whether arrangements for contingent payments to employees or ~~selling shareholders~~ former owners are contingent consideration in the ~~business~~ entity combination 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.

~~B55~~AG51. If it is not clear whether an arrangement for payments to employees or ~~selling shareholders~~ former owners is part of the exchange for the acquiree or is a transaction separate from the ~~business~~ entity combination, the acquirer should consider the following indicators:

(a) Continuing employment—The terms of continuing employment by the ~~selling shareholders~~ former owners 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~~ former owners who do not become employees receive lower contingent payments on a per-share basis than the ~~selling shareholders~~ former owners who become employees of the combined entity, that fact may indicate that the incremental amount of contingent payments to the ~~selling shareholders~~ former owners who become employees is remuneration.

(e) Number of shares owned or other types of owner interest—The relative number of shares owned or other types of owner interest held by the ~~selling shareholders~~ former owners who remain as key employees may be an indicator of the substance of the contingent consideration arrangement. For example, if the ~~selling shareholders~~ former owners who owned substantially all of the shares or other types of owner interest in the acquiree continue as key employees, that fact may indicate that the arrangement is, in substance, a profit-sharing arrangement intended to provide remuneration for post-combination services. Alternatively, if ~~selling shareholders~~ former owners who continue as key employees owned only a small number of shares of the acquiree or other types of owner interest and all ~~selling shareholders~~ former owners receive the same amount of contingent consideration on a per-share or other pro-rata basis, that fact may indicate that the contingent payments are additional consideration. The pre-acquisition ownership interests held by parties related to ~~selling shareholders~~ former owners 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 acquiree and the contingent formula relates to that valuation approach, that fact may suggest that the contingent payments are additional consideration. Alternatively, if the contingent payment formula is consistent with prior profit-sharing arrangements, that fact may suggest that the substance of the arrangement is to provide remuneration.

(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~~surplus, that might suggest that the obligation is contingent consideration in the ~~business~~ entity combination and that the formula is intended to establish or verify the fair value of the acquiree. In contrast, a contingent payment that is a specified percentage of earnings might suggest that the obligation to employees is a profit-sharing arrangement to remunerate employees for services rendered.

(h) Other agreements and issues—The terms of other arrangements with ~~selling shareholders~~ former owners (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 acquiree. For example, in connection with the acquisition, the acquirer might enter into a property lease arrangement with a significant ~~selling shareholder~~former owner. If the lease payments specified in the lease contract are significantly below market, some or all of the contingent payments to the lessor (the ~~selling shareholder~~former owner) required by a separate arrangement for contingent payments might be, in substance, payments for the use of the leased property that the acquirer should recognize separately in its post-combination financial statements. In contrast, if the lease contract specifies lease payments that are consistent with market terms for the leased property, the arrangement for contingent payments to the ~~selling shareholder~~ former owner may be contingent consideration in the ~~business~~ entity combination.

~~Acquirer share-based payment awards exchanged for awards held by the acquiree's employees (application of paragraph 52(b))~~

~~B56 An acquirer may exchange its share-based payment awards (replacement awards) for awards held by employees of the acquiree. Exchanges of share options or other share-based payment awards in conjunction with a business combination are accounted for as modifications of share-based payment awards in accordance with IFRS 2 *Share-based Payment*. If the acquirer is obliged to replace the acquiree awards, either all or a portion of the market-based measure of the acquirer's replacement awards shall be included in measuring the consideration transferred in the business combination. The acquirer is obliged to replace the acquiree awards if the acquiree or its employees have the ability to enforce replacement. For example, for the purposes of applying this requirement, the acquirer is obliged to replace the acquiree's awards if replacement is required by:~~

~~(a) the terms of the acquisition agreement;~~

~~(b) the terms of the acquiree's awards; or~~

~~(c) applicable laws or regulations.~~

~~In some situations, acquiree awards may expire as a consequence of a business combination. If the acquirer replaces those awards even though it is not obliged to do so, all of the market-based measure of the replacement awards shall be recognised as remuneration cost in the post-combination financial statements. That is to say, none of the market-based measure of those awards shall be included in measuring the consideration transferred in the business combination.~~

~~B57 To determine the portion of a replacement award that is part of the consideration transferred for the acquiree and the portion that is remuneration for post-combination service, the acquirer shall measure both the replacement awards granted by the acquirer and the acquiree awards as of the acquisition date in accordance with IFRS 2. The portion of the market-based measure of the replacement award that is part of the consideration transferred in exchange for the acquiree equals the portion of the acquiree award that is attributable to pre-combination service.~~

~~B58 The portion of the replacement award attributable to pre-combination service is the market-based measure of the acquiree award multiplied by the ratio of the portion of the vesting period completed to the greater of the total vesting period or the original vesting period of the acquiree award. The vesting period is the period during which all the specified vesting conditions are to be satisfied. Vesting conditions are defined in IFRS 2.~~

~~B59 The portion of a non-vested replacement award attributable to post-combination service, and therefore recognised as remuneration cost in the post-combination financial statements, equals the total market-based measure of the replacement award less the amount attributed to pre-combination service. Therefore, the acquirer attributes any excess of the market-based measure of the replacement award over the market-based measure of the acquiree award to post-combination service and recognises that excess as remuneration cost in the post-combination financial statements. The acquirer shall attribute a portion of a replacement award to post-combination service if it requires post-combination service, regardless of whether employees had rendered all of the service required for their acquiree awards to vest before the acquisition date.~~

~~B60 The portion of a non-vested replacement award attributable to pre-combination service, as well as the portion attributable to post-combination service, shall reflect the best available estimate of the number of replacement awards expected to vest. For example, if the market-based measure of the portion of a replacement award attributed to pre-combination service is CU100 and the acquirer expects that only 95 per cent of the award will vest, the amount included in consideration transferred in the business combination is CU95. Changes in the estimated number of replacement awards expected to vest are reflected in remuneration cost for the periods in which the changes or forfeitures occur—not as adjustments to the consideration transferred in the business combination. Similarly, the effects of other events, such as modifications or the ultimate outcome of awards with performance conditions, that occur after the acquisition date are accounted for in accordance with IFRS 2 in determining remuneration cost for the period in which an event occurs.~~

~~B61 The same requirements for determining the portions of a replacement award attributable to pre-combination and post-combination service apply regardless of whether a replacement award is classified as a liability or as an equity instrument in accordance with the provisions of IFRS 2. All changes in the market-based measure of awards classified as liabilities after the acquisition date and the related income tax effects are recognised in the acquirer's post-combination financial statements in the period(s) in which the changes occur.~~

~~B62 The income tax effects of replacement awards of share-based payments shall be recognised in accordance with the provisions of IAS 12 *Income Taxes*.~~

Other ~~IFRSs~~ IPSASs that provide guidance on subsequent measurement and accounting (application of paragraph ~~54~~59)

~~B63~~AG52. Examples of other ~~IFRSs~~ IPSASs that provide guidance on subsequently measuring and accounting for assets acquired and liabilities assumed or incurred in ~~a business~~ an entity combination include:

(a) ~~IAS 38~~ IPSAS XX (ED 40) prescribes the accounting for identifiable intangible assets acquired in ~~a business~~ an entity combination from an exchange transaction. The acquirer measures goodwill at the amount recognized at the acquisition date less any accumulated impairment losses. ~~IAS 36 Impairment of Assets~~ , IPSAS 21, "Impairment of Non-Cash-Generating Assets" prescribes the accounting for impairment losses for non-cash-generating assets and IPSAS 26, "Impairment of Cash-Generating Assets" prescribes the accounting for cash-generating unit and cash-generating asset impairment losses.

~~(b) IFRS 4 Insurance Contracts provides guidance on the subsequent accounting for an insurance contract acquired in a business combination.~~

~~(c) IAS 12 prescribes the subsequent accounting for deferred tax assets (including unrecognised deferred tax assets) and liabilities acquired in a business combination.~~

~~(d) IFRS 2 provides guidance on subsequent measurement and accounting for the portion of replacement share-based payment awards issued by an acquirer that is attributable to employees' future services.~~

(~~e~~b) ~~IAS 27~~ IPSAS 6 (as amended in ~~2008~~200X) provides guidance on accounting for changes in a ~~parent's~~ controlling entity's ownership interest in a ~~subsidiary~~ controlled entity after control is obtained.

Disclosures (application of paragraphs ~~59~~ 64 and ~~61~~66)

~~B64~~AG53. To meet the objective in paragraph ~~59~~64, the acquirer shall disclose the following information for each ~~business~~ entity combination that occurs during the reporting period:

(a) The name and a description of the acquiree.

(b) The acquisition date.

(c) The percentage of voting equity interests acquired.

(d) The primary reasons for the ~~business~~ entity combination and a description of how the acquirer obtained control of the acquiree.

(e) A qualitative description of the factors that make up the goodwill recognized, such as expected synergies from combining operations of the acquiree 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 ~~a business~~ an operation or ~~subsidiary~~ 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 determining the fair value of those instruments or interests.

(g) The acquisition-date amount of goodwill representing unallocated service potential arising from the acquisition of a non-cash-generating operation which has been immediately expensed.

(~~g~~h) For contingent consideration arrangements and indemnification assets:

(i) The amount recognized 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 shall disclose that fact.

(~~h~~i) For acquired receivables:

(i) The fair value of the receivables;

(ii) The gross contractual and non-contractual amounts receivable; and

(iii) The best estimate at the acquisition date of the contractual and non-contractual cash flows not expected to be collected.

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

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

(~~j~~k) For each contingent liability recognized in accordance with paragraph ~~23~~29, the information required in paragraph ~~85~~ 98 of ~~IAS 37 Provisions, Contingent Liabilities and Contingent Assets~~IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets." If a contingent liability is not recognized because its fair value cannot be measured reliably, the acquirer shall disclose:

(i) The information required by paragraph ~~86~~ 100 of ~~IAS 37~~IPSAS 19; and

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

(~~k~~l) The total amount of goodwill that is expected to be deductible for tax purposes.

(~~l~~m) For transactions that are recognized separately from the acquisition of assets and assumption of liabilities in the ~~business~~ entity combination in accordance with paragraph ~~51~~56:

(i) A description of each transaction;

(ii) How the acquirer accounted for each transaction;

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

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

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

(~~n~~o) In a bargain purchase (see paragraphs ~~34–36~~40 – 42):

(i) The amount of any gain recognized in accordance with paragraph ~~34~~ 40 and the line item in the statement of ~~comprehensive income~~ financial performance in which the gain is recognized; and

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

(~~o~~p) For each ~~business~~ entity combination in which the acquirer holds less than 100 per cent of the equity interests in the acquiree at the acquisition date:

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

(ii) For each non-controlling interest in an acquiree measured at fair value, the valuation techniques and key model inputs used for determining that value.

(~~p~~q) In ~~a business~~ an entity combination achieved in stages:

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

(ii) The amount of any gain or loss recognized as a result of remeasuring to fair value the equity interest in the acquiree held by the acquirer before the ~~business~~ entity combination (see paragraph ~~42~~48) and the line item in the statement of ~~comprehensive income~~ financial performance in which that gain or loss is recognized.

(~~q~~r) The following information:

(i) The amounts of revenue and ~~profit or loss~~ surplus or deficit of the acquiree since the acquisition date included in the consolidated statement

of ~~comprehensive income~~ financial performance for the reporting period; and

(ii) The revenue and ~~profit or loss~~ surplus or deficit of the combined entity for the current reporting period as though the acquisition date for all ~~business~~ entity combinations 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 subparagraph is impracticable, the acquirer shall disclose that fact and explain why the disclosure is impracticable. This ~~IFRS~~ Standard uses the term ‘impracticable’ with the same meaning as in ~~IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*~~IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors.”

~~B65~~AG54. For individually immaterial ~~business~~ entity combinations occurring during the reporting period that are material collectively, the acquirer shall disclose in aggregate the information required by paragraph ~~B64~~AG53(e)–(~~q~~r).

~~B66~~AG55. If the acquisition date of ~~a business~~ an entity combination is after the end of the reporting period but before the financial statements are authorized for issue, the acquirer shall disclose the information required by paragraph ~~B64~~ AG53 unless the initial accounting for the ~~business~~ entity combination is incomplete at the time the financial statements are authorized for issue. In that situation, the acquirer shall describe which disclosures could not be made and the reasons why they cannot be made.

~~B67~~AG56. To meet the objective in paragraph ~~61~~66, the acquirer shall disclose the following information for each material ~~business~~ entity combination or in the aggregate for individually immaterial ~~business~~ entity combinations that are material collectively:

(a) If the initial accounting for ~~a business~~ an entity combination is incomplete (see paragraph ~~45~~50) for particular assets, liabilities, non-controlling interests or items of consideration and the amounts recognized in the financial statements for the ~~business~~ entity combination thus have been determined only provisionally:

(i) The reasons why the initial accounting for the ~~business~~ entity combination is incomplete;

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

(iii) The nature and amount of any measurement period adjustments recognized during the reporting period in accordance with paragraph ~~49~~54.

(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 recognized 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 recognized in ~~a business~~ an entity combination, the acquirer shall disclose the information required by paragraphs ~~84~~ 97 and ~~85~~ 98 of ~~IAS 37~~ IPSAS 19 for each class of provision.

(d) A reconciliation of the carrying amount of goodwill (arising on the acquisition of cash-generating entities or operations) 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 recognized during the reporting period, except goodwill included in a disposal group that, on acquisition, meets the criteria to be classified as held for sale in accordance with ~~IFRS 5 Non-current Assets Held for Sale and Discontinued Operations~~the relevant international or national standard dealing with non-current assets held for sale and discontinued operations.

~~(iii) Adjustments resulting from the subsequent recognition of deferred tax assets during the reporting period in accordance with paragraph 67.~~

(~~iv~~iii) Goodwill included in a disposal group classified as held for sale in accordance with the relevant international or national standard dealing with non-current assets held for sale and discontinued operations ~~IFRS 5~~ and goodwill derecognized during the reporting period without having previously been included in a disposal group classified as held for sale.

(~~v~~iv) Impairment losses recognized during the reporting period in accordance with ~~IAS 36~~IPSAS 26. (~~IAS 36~~ IPSAS 26 requires disclosure of information about the recoverable amount and impairment of goodwill in addition to this requirement.)

(~~vi~~v) Net exchange rate differences arising during the reporting period in accordance with ~~IAS 21 The Effects of Changes in Foreign Exchange Rates~~IPSAS 4, "The Effects of Changes in Foreign Exchange Rates."

(~~vii~~vi) Any other changes in the carrying amount during the reporting period.

(~~viii~~vii) 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 recognized in the current reporting period that both:

(i) Relates to the identifiable assets acquired or liabilities assumed in ~~a business~~ an entity combination 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.

~~Transitional provisions for business combinations involving only mutual entities or by contract alone (application of paragraph 66)~~

~~B68 Paragraph 64 provides that this IFRS applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Earlier application is permitted. However, an entity shall apply this IFRS only at the beginning of an annual reporting period that begins on or after 30 June 2007. If an entity applies this IFRS before its effective date, the entity shall disclose that fact and shall apply IAS 27 (as amended in 2008) at the same time.~~

~~B69 The requirement to apply this IFRS prospectively has the following effect for a business combination involving only mutual entities or by contract alone if the acquisition date for that business combination is before the application of this IFRS:~~

~~(a) *Classification* An entity shall continue to classify the prior business combination in accordance with the entity's previous accounting policies for such combinations.~~

~~(b) *Previously recognised goodwill* At the beginning of the first annual period in which this IFRS is applied, the carrying amount of goodwill arising from the prior business combination shall be its carrying amount at that date in accordance with the entity's previous accounting policies. In determining that amount, the entity shall eliminate the carrying amount of any accumulated amortisation of that goodwill and the corresponding decrease in goodwill. No other adjustments shall be made to the carrying amount of goodwill.~~

~~(c) *Goodwill previously recognised as a deduction from equity* The entity's previous accounting policies may have resulted in goodwill arising from the prior business combination being recognised as a deduction from equity. In that situation the entity shall not recognise that goodwill as an asset at the beginning of the first annual period in which this IFRS is applied. Furthermore, the entity shall not recognise in profit or loss any part of that goodwill when it disposes of all or part of the business to which that goodwill relates or when a cash-generating unit to which the goodwill relates becomes impaired.~~

~~(d) *Subsequent accounting for goodwill* From the beginning of the first annual period in which this IFRS is applied, an entity shall discontinue amortising goodwill arising from the prior business combination and shall test goodwill for impairment in accordance with IAS 36.~~

~~(e) *Previously recognised negative goodwill* An entity that accounted for the prior business combination by applying the purchase method may have~~

~~recognised a deferred credit for an excess of its interest in the net fair value of the acquiree's identifiable assets and liabilities over the cost of that interest (sometimes called negative goodwill). If so, the entity shall derecognise the carrying amount of that deferred credit at the beginning of the first annual period in which this IFRS is applied with a corresponding adjustment to the opening balance of retained earnings at that date.~~

Appendix C

Amendments to other IPSASs

The amendments in this appendix shall be applied for annual reporting periods beginning on or after Month Day, Year. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period (deleted text is struck through and new text is underlined).

IPSAS 6, "Consolidated and Separate Financial Statements"

Paragraph 51 is amended as follows:

51. The revenue and expenses of a controlled entity are included in the consolidated financial statements from the acquisition date as defined in IPSAS XX (ED 41), "Entity Combinations from Exchange Transactions~~(the relevant international or national accounting standard dealing with business combinations provides guidance on the meaning of the acquisition date)~~." The revenue and expenses of a controlled entity are included in the consolidated financial statements until the date on which the controlling entity ceases to control the controlled entity. The difference between the proceeds from the disposal of the controlled entity and its carrying amount as of the date of disposal, including the cumulative amount of any exchange differences that relate to the controlled entity recognized in net assets/equity in accordance with IPSAS 4, "The Effects of Changes in Foreign Exchange Rates," is recognized in the consolidated statement of financial performance as the gain or loss on the disposal of the controlled entity.

IPSAS 7, "Investments in Associates"

Paragraph 29 is amended as follows:

29. An investment in an associate is accounted for using the equity method from the date on which it becomes an associate. ~~Guidance on accounting for any difference (whether positive or negative) between the cost of acquisition and the investor's share of the fair values of the net identifiable assets of the associate is treated as goodwill (guidance can be found in the relevant international or national accounting standard dealing with business combinations).~~ On acquisition of the investment any difference between the cost of the investment and the investor's share of hte net fair value of the associate's identifiable assets and liabilities is accounted for as follows:

    (a) Goodwill relating to an associate is included in the carrying amount of the investment. Amortization of that goodwill is not permitted.

    (b) Any excess of the investor's share of the net fair value of the associate's identifiable assets and liabilities over the cost of the investment is included as revenue in the determination of the investor's share of the associate's surplus or deficit in the period in which the investment is acquired.

    Appropriate adjustments to the investor's share of the associate's surpluses or deficits after acquisition are also made to account, for example, for depreciation of the depreciable assets based on their fair values at the acquisition date~~ of acquisition~~.

Similarly, appropriate adjustments to the investor's share of the associate's surpluses or deficits after acquisition are made for impairment losses recognized by the associate, such as for goodwill or property, plant and equipment.

Paragraph 39 is amended as follows:

39. ~~If application of the requirements in the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments indicates that the investment may be impaired, an entity applies IPSAS 21, "Impairment of Non-Cash Generating Assets." IPSAS 21 directs an entity to refer IAS 36 to determine the value in use of the cash-generating investment. Based on IAS 36,~~ Because goodwill that forms part of the carrying amount of an investment in an associate is not separately recognized, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IPSAS 26, "Impairment of Cash-Generating Assets." Instead, the entire carrying amount of the investment is tested for impairment in accordance with IPSAS 26 as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of the requirements in IPSAS XX (ED 38), "Financial Instruments: Recognition and Measurement" indicates that the investment may be impaired. An impairment loss recognized in those circumstances is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Accordingly, any reversal of that impairment loss is recognized in accordance with IPSAS 26 to the extent that the recoverable amount of the investment subsequently increases. In determining the value in use of the investment, an entity estimates:

    (a) Its share of the present value of the estimated future cash flows expected to ~~the~~ be generated by the associate~~investee~~, including the cash flows from the operations of the associate ~~investee~~ and the proceeds on the ultimate disposal of the investment; or

    (b) The present value of the estimated future cash flows expected to arise from dividends or similar distributions to be received from the investment and from its ultimate disposal.

    Under appropriate assumptions, both methods give the same result. ~~Any resulting impairment loss for the investment is allocated in accordance with IAS 36. Therefore, it is allocated first to any remaining goodwill (see paragraph 29).~~

IPSAS 17 "Property, Plant and Equipment"

Paragraph 60 is amended as follows:

60. An entity allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. For example, in most cases, it would be required to depreciate separately the pavements, formation, curbs and channels, footpaths, bridges and lighting within a road system. Similarly, it may be appropriate to depreciate separately the airframe and engines of an aircraft, whether owned or subject to a finance lease. Similarly, if an entity acquires property, plant and equipment subject to an operating lease in which it is the lessor, it

may be appropriate to depreciate separately amounts reflected in the cost of that item that are attributable to favorable or unfavorable lease terms relative to market terms.

A new paragraph is inserted after paragraph 107 as follows:

107A. **IPSAS XX (ED 41), "Entity Combinations from Exchange Transactions" amended paragraph 60. An entity shall apply that amendment for annual periods beginning on or after Month Day, Year. If an entity applies IPSAS XX (ED 41) for an earlier period, the amendment shall also be applied for that earlier period.**

IPSAS 18, "Segment Reporting"

Paragraph 33 is amended as follows:

Segment Assets, Liabilities, Revenue and Expense

33. Examples of segment assets include current assets that are used in the operating activities of the segment; property, plant and equipment; assets that are the subject of finance leases; and intangible assets. If a particular item of depreciation or amortization is included in segment expense, the related asset is also included in segment assets. Segment assets do not include assets used for general entity or head office purposes, for example:

(a) The office of the central administration and policy development unit of a department of education is not included in segments reflecting the delivery of primary, secondary and tertiary educational services; or

(b) The parliamentary or other general assembly building is not included in segments reflecting major functional activities such as education, health and defense when reporting at the whole-of-government level.

Segment assets include operating assets shared by two or more segments if a reasonable basis for allocation exists. Segment assets include goodwill that is directly attributable to a segment or can be allocated to a segment on a reasonable basis, and segment expense includes any impairment losses recognized for goodwill.

Paragraph 37 is amended as follows:

37. ~~International or national accounting standards may require adjustments to be made to the carrying amounts of the identifiable assets and liabilities of an entity acquired in an acquisition (see for example IFRS 3).~~ Measurements of segment assets and liabilities include ~~any~~ adjustments to the prior carrying amounts of the identifiable segment assets and segment liabilities of an entity acquired in an entity combination from an exchange transaction~~accounted for as a purchase~~, even if those adjustments are made only for the purpose of preparing consolidated financial statements and are not recognized ~~recorded~~ in either the controlling entity's separate or the controlled entity's individual financial statements. Similarly, if property, plant, and equipment has been revalued after ~~subsequent to~~ acquisition in accordance with the revaluation model in IPSAS 17, "Property, Plant and Equipment," measurements of segment assets reflect those revaluations.

IPSAS 21, "Impairment of Non-Cash-Generating Assets"

A new heading and paragraph are inserted after paragraph 34, as follows:

Non-Cash-Generating Units

34A. As set out in paragraph 51 of this Standard, impairment loss refers to impairment loss of a non-cash-generating asset unless otherwise specified. Therefore, this Standard does not provide for non-cash-generating units to be established, for example, by using unallocated service potential on acquisition of an operation in which most of the assets are non-cash-generating.

IPSAS 23, "Revenue from Non-Exchange Transactions (Taxes and Transfers)"

Paragraph 5 is amended as follows:

5. Governments may reorganize the public sector, merging some public sector entities and dividing other entities into two or more separate entities. An entity combination occurs when two or more reporting entities are brought together to form one reporting entity. These restructurings do not ordinarily involve one entity purchasing another entity, but may result in a new or existing entity acquiring all the assets and liabilities of another entity. The International Public Sector Accounting Standards Board (IPSASB) has not addressed entity combinations from non-exchange transactions and has excluded them from the scope of this Standard. Therefore, this Standard does not specify whether an entity combination, which is a non-exchange transaction, will give rise to revenue or not.

Paragraph BC8 of the Basis for Conclusions is amended as follows:

BC8. This Standard does not specify whether entity combinations resulting from non-exchange transactions will give rise to revenue. This is because the IPSASB has not considered the financial reporting of entity combinations from non-exchange transactions in the public sector~~, including the applicability of International Financial Reporting Standard (IFRS) 3, "Business Combinations" to public sector entities~~.

IPSAS 25, "Employee Benefits"

Paragraph 128 is amended as follows:

Entity Combinations from Exchange Transactions

128. ~~In determining the assets and liabilities to be recognized related to postemployment benefits in an entity combination, an entity considers the international or national accounting standard dealing with entity combinations.~~ In an entity combination from an exchange transaction, an entity recognizes assets and liabilities arising from post-employment benefits at the present value of the obligation less the fair value of any plan assets (see IPSAS XX (ED 41), "Entity Combinations from Exchange Transactions"). The present value of the obligation includes all of the following, even if the acquiree had not recognized them at the acquisition date:

(a) Actuarial gains and losses that arose before the acquisition date (whether or not they fell inside the 10% 'corridor'); and

(b) Past service cost that arose from benefit changes, or the introduction of a plan before the acquisition date.

IPSAS 26, "Impairment of Cash-Generating Assets"

Paragraph 23 is amended as follows:

23. **Irrespective of whether there is any indication of impairment, an entity shall also:**

(a) **Test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test may be performed at any time during the reporting period, provided it is performed at the same time every year. Different intangible assets may be tested for impairment at different times. However, if such an intangible asset was initially recognized during the current reporting period, that intangible asset shall be tested for impairment before the end of the current reporting period.**

(b) **Test goodwill acquired in an entity combination for impairment annually in accordance with paragraphs 90A – 90O.**

Paragraph 76 is amended as follows:

76. Paragraphs 77 – 97 set out the requirements for identifying the cash-generating unit to which the asset belongs and determinging the carrying amount of, and recognizing impairment losses for, cash-generating units and goodwill.

New headings and paragraphs are inserted after paragraph 90, as follows:

Goodwill

Allocating goodwill to cash-generating units

90A. **For the purpose of impairment testing, goodwill acquired in an entity combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated shall:**

(a) **Represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and**

(b) **Not be larger than an operating segment determined in accordance with IPSAS 18, "Segment Reporting."**

90B. Goodwill recognized in an entity combination is an asset representing the future economic benefits or service potential arising from other assets acquired in an entity combination that are not individually identified and separately recognized. Goodwill does not generate cash flows independently of other assets or groups of assets, and often contributes to the cash flows of multiple cash-generating units. Goodwill sometimes cannot be allocated on a non-arbitrary basis to individual cash-generating units, but only to groups of cash-generating units. As a result, the lowest level within

the entity at which the goodwill is monitored for internal management purposes sometimes comprises a number of cash-generating units to which the goodwill relates, but to which it cannot be allocated. References in paragraphs 90D – 90O to a cash-generating unit to which goodwill is allocated should be read as references also to a group of cash-generating units to which goodwill is allocated.

90C. Applying the requirements in paragraph 90A results in goodwill being tested for impairment at a level that reflects the way an entity manages its operations and with which the goodwill would naturally be associated. Therefore, the development of additional reporting systems is typically not necessary.

90D. A cash-generating unit to which goodwill is allocated for the purpose of impairment testing may not coincide with the level at which goodwill is allocated in accordance with IPSAS 4, "The Effects of Changes in Foreign Exchange Rates" for the purpose of measuring foreign currency gains and losses. For example, if an entity is required by IPSAS 4 to allocate goodwill to relatively low levels for the purpose of measuring foreign currency gains and losses, it is not required to test the goodwill for impairment at that same level unless it also monitors the goodwill at that level for internal management purposes.

90E. **If the initial allocation of goodwill acquired in an entity combination cannot be completed before the end of the annual period in which the entity combination is effected, that initial allocation shall be completed before the end of the first annual period beginning after the acquisition date.**

90F. In accordance with IPSAS XX (ED 41), "Entity Combinations from Exchange Transactions", if the initial accounting for an entity combination can be determined only provisionally by the end of the period in which the combination is effected, the acquirer:

(a) Accounts for the combination using those provisional values; and

(b) Recognizes any adjustments to those provisional values as a result of completing the initial accounting within the measurement period, which will not exceed twelve months from the acquisition date.

In such circumstances, it might also not be possible to complete the initial allocation of the goodwill recognized in the combination before the end of the annual period in which the combination is effected. When this is the case, the entity discloses the information required by paragraph 122A.

90G. **If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of shall be:**

(a) **Included in the carrying amount of the operation when determining the gain or loss on disposal; and**

(b) **Measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained, unless the entity can**

demonstrate that some other method better reflects the goodwill associated with the operation disposed of.

90H. **If an entity reorganizes its reporting structure in a way that changes the composition of one or more cash-generating units to which goodwill has been allocated, the goodwill shall be reallocated to the units affected. This reallocation shall be performed using a relative value approach similar to that used when an entity disposes of an operation within a cash-generating unit, unless the entity can demonstrate that some other method better reflects the goodwill associated with the reorganized units.**

Testing cash-generating units with goodwill for impairment

90I. **When, as described in paragraph 90B, goodwill relates to a cash-generating unit but has not been allocated to that unit, the unit shall be tested for impairment, whenever there is an indication that the unit may be impaired, by comparing the unit's carrying amount, excluding any goodwill, with its recoverable amount. Any impairment loss shall be recognized in accordance with paragraph 91.**

90J. If a cash-generating unit described in paragraph 90I includes in its carrying amount an intangible asset that has an indefinite useful life or is not yet available for use and that asset can be tested for impairment only as part of the cash-generating unit, paragraph 23 requires the unit also to be tested for impairment annually.

90K. **A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit shall be regarded as not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity shall recognize the impairment loss in accordance with paragraph 91.**

Timing of impairment tests

90L. **The annual impairment test for a cash-generating unit to which goodwill has been allocated may be performed at any time during an annual period, provided the test is performed at the same time every year. Different cash-generating units may be tested for impairment at different times. However, if some or all of the goodwill allocated to a cash-generating unit was acquired in an entity combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period.**

90M. **If the assets constituting the cash-generating unit to which goodwill has been allocated are tested for impairment at the same time as the unit containing the goodwill, they shall be tested for impairment before the unit containing the goodwill. Similarly, if the cash-generating units constituting a group of cash-generating units to which goodwill has been allocated are tested for impairment at the same time as the group of units containing the goodwill, the**

individual units shall be tested for impairment before the group of units containing the goodwill.

90N. At the time of impairment testing a cash-generating unit to which goodwill has been allocated, there may be an indication of an impairment of an asset within the unit containing the goodwill. In such circumstances, the entity tests the asset for impairment first, and recognizes any impairment loss for that asset before testing for impairment the cash-generating unit containing the goodwill. Similarly, there may be an indication of an impairment of a cash-generating unit within a group of units containing the goodwill. In such circumstances, the entity tests the cash-generating unit for impairment first, and recognizes any impairment loss for that unit, before testing for impairment the group of units to which the goodwill is allocated.

90O. **The most recent detailed calculation made in a preceding period of the recoverable amount of a cash-generating unit to which goodwill has been allocated may be used in the impairment test of that unit in the current period provided all of the following criteria are met:**

(a) **The assets and liabilities making up the unit have not changed significantly since the most recent recoverable amount calculation;**

(b) **The most recent recoverable amount calculation resulted in an amount that exceeded the carrying amount of the unit by a substantial margin; and**

(c) **Based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation, the likelihood that a current recoverable amount determination would be less than the current carrying amount of the unit is remote.**

Paragraph 91 is amended as follows:

91. **An impairment loss shall be recognized for a cash-generating unit (the smallest group of cash-generating units to which goodwill has been allocated) if, and only if, the recoverable amount of the unit (group of units) is less than the carrying amount of the unit (group of units). The impairment loss shall be allocated to reduce the carrying amount of the cash-generating assets of the unit (group of units)**

(a) **First, to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units); and**

(b) **Then, to the other assets of the unit (group of units) ~~on a~~ pro rata on the basis~~,~~ ~~based on~~ of the carrying amount of each asset in the unit (group of units).**

These reductions in carrying amounts shall be treated as impairment losses on individual assets and recognized in accordance with paragraph 73.

A new heading and paragraphs are inserted after paragraph 111, as follows:

Reversing an impairment loss for goodwill

111A. **An impairment loss recognized for goodwill shall not be reversed in a subsequent period.**

111B. IPSAS XX (ED 40), "Intangible Assets" prohibits the recognition of internally generated goodwill. Any increase in the recoverable amount of goodwill in the periods following the recognition of an impairment loss for that goodwill is likely to be an increase in internally generated goodwill, rather than a reversal of the impairment loss recognized for the acquired goodwill.

A new paragraph is inserted after paragraph 122, as follows:
Disclosure

122A. **If, in accordance with paragraph 90E, any portion of the goodwill acquired in an entity combination during the period has not been allocated to a cash-generating unit (group of units) at the end of the reporting period, the amount of the unallocated goodwill shall be disclosed together with the reasons why that amount remains unallocated.**

Paragraph 123 and the heading above it are amended as follows:

Disclosure of Estimates used to Measure Recoverable Amounts of Cash-Generating Units Containing Goodwill or Intangible Assets with Indefinite Useful Lives

123. **An entity shall disclose the information required by (a)–(~~e~~f) for each cash generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (group of units) is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives:**

(a) **The carrying amount of goodwill allocated to the unit (group of units);**

(~~a~~b) **The carrying amount of intangible assets with indefinite useful lives allocated to the unit (group of units);**

(~~b~~c) **The basis on which the unit's (group of units') recoverable amount has been determined (i.e., value in use or fair value less costs to sell);**

(~~c~~d) **If the unit's (group of units') recoverable amount is based on value in use:**

(i) **A description of each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive;**

(ii) **A description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information;**

(iii) **The period over which management has projected cash flows based on financial budgets/forecasts approved by management and, when a period greater than five years is used for a cash-generating unit (group of units), an explanation of why that longer period is justified;**

(iv) **The growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts, and the justification for using any growth rate that exceeds the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market to which the unit (group of units) is dedicated; and**

(v) **The discount rate(s) applied to the cash flow projections.**

(~~d~~e) **If the unit's recoverable amount is based on fair value less costs to sell, the methodology used to determine fair value less costs to sell. If fair value less costs to sell is not determined using an observable market price for the unit (group of units), the following information shall also be disclosed:**

(i) **A description of each key assumption on which management has based its determination of fair value less costs to sell. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive; and**

(ii) **A description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.**

(~~e~~f) **If a reasonably possible change in a key assumption on which management has based its determination of the unit's (group of units') recoverable amount would cause the unit's (group of units') carrying amount to exceed its recoverable amount:**

(i) **The amount by which the unit's (group of units') recoverable amount would exceed its carrying amount;**

(ii) **The value assigned to the key assumption; and**

(iii) **The amount by which the value assigned to the key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount, in order for the unit's (group of units') recoverable amount to be equal to its carrying amount.**

Paragraphs 124 and 125 are amended as follows:

124. **If some or all of the carrying amount of goodwill or intangible assets with indefinite useful lives is allocated across multiple cash-generating units (groups of units), and the amount so allocated to each unit (group of units) is not significant in comparison**

with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives, that fact shall be disclosed, together with the aggregate carrying amount of goodwill or intangible assets with indefinite useful lives allocated to those units (groups of units). In addition, if the recoverable amounts of any of those units (groups of units) are based on the same key assumption(s) and the aggregate carrying amount of goodwill or intangible assets with indefinite useful lives allocated to them is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives, an entity shall disclose that fact, together with:

(a) **The aggregate carrying amount of goodwill allocated to those units (groups of units);**

(~~a~~b) **The aggregate carrying amount of intangible assets with indefinite useful lives allocated to those units (groups of units);**

(~~b~~c) **A description of the key assumption(s);**

(~~c~~d) **A description of management's approach to determining the value(s) assigned to the key assumption(s), whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information;**

(~~d~~e) **If a reasonably possible change in the key assumption(s) would cause the aggregate of the units' (groups of units') carrying amounts to exceed the aggregate of their recoverable amounts:**

(i) **The amount by which the aggregate of the units' (groups of units') recoverable amounts would exceed the aggregate of their carrying amounts;**

(ii) **The value(s) assigned to the key assumption(s); ~~and~~**

(iii) **The amount by which the value(s) assigned to the key assumption(s) must change, after incorporating any consequential effects of the change on the other variables used to measure recoverable amount, in order for the aggregate of the units' (groups of units') recoverable amounts to be equal to the aggregate of their carrying amounts.**

125. The most recent detailed calculation made in a preceding period of the recoverable amount of a cash-generating unit (group of units) may, in accordance with paragraph 37 or 90O, be carried forward and used in the impairment test for that unit (group of units) in the current period provided specified criteria are met. When this is the case, the information for that unit (group of units) that is incorporated into the disclosures required by paragraphs 123 and 124 relate to the carried forward calculation of recoverable amount."

A new paragraph is inserted after paragraph 125, as follows:

125A. Example 10 in the Implementation guidance illustrates the disclosures required by paragraphs 123 and 124.

A new paragraph is inserted after paragraph 127, as follows:

Effective Date

127A. **IPSAS XX (ED 41) inserts paragraphs 90A – 90O, 111A, 111B, 122A, Appendix C and examples 7 and 8 in the Implementation Guidance. IPSAS XX (ED 41) also amends paragraphs 23, 91 and 123. An entity shall apply the amendment for annual periods beginning on or after Month Day, Year. If an entity applies IPSAS XX (ED 41) for an earlier period, the amendment shall also be applied for that earlier period.**

A new appendix is added after Appendix C, as follows:

Appendix D

This appendix is an integral part of the Standard.

Impairment testing cash-generating units with goodwill and non-controlling interests

D1. In accordance with IPSAS XX (ED 41), the acquirer measures and recognizes goodwill as of the acquisition date as the excess of (a) over (b) below:

(a) The aggregate of:

(i) The consideration transferred measured in accordance with IPSAS XX (ED 41), which generally requires acquisition-date fair value;

(ii) The amount of any non-controlling interest in the acquiree measured in accordance with IPSAS XX (ED 41); and

(iii) In an entity combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.

(b) The net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed measured in accordance with IPSAS XX (ED 41) .

Allocation of goodwill

D2. Paragraph 90A of this Standard requires goodwill acquired in an entity combination to be allocated to each of the acquirer's cash-generating units, or groups of cash generating units, expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units, or groups of units. It is possible that some of the synergies resulting from an entity combination will be allocated to a cash-generating unit in which the non-controlling interest does not have an interest.

Testing for impairment

D3. Testing for impairment involves comparing the recoverable amount of a cash-generating unit with the carrying amount of the cash-generating unit.

D4. If an entity measures non-controlling interests as its proportionate interest in the net identifiable assets of a controlled entity at the acquisition date, rather than at fair value, goodwill attributable to non-controlling interests is included in the recoverable amount of the related cash-generating unit but is not recognized in the controlling entity's consolidated financial statements. As a consequence, an entity shall gross up the carrying amount of goodwill allocated to the unit to include the goodwill attributable to the non-controlling interest. This adjusted carrying amount is then compared with the recoverable amount of the unit to determine whether the cash-generating unit is impaired.

Allocating an impairment loss

D5. Paragraph 91 requires any identified impairment loss to be allocated first to reduce the carrying amount of goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

D6. If a controlled entity, or part of a subsidiary, with a non-controlling interest is itself a cash-generating unit, the impairment loss is allocated between the parent and the non-controlling interest on the same basis as that on which profit or loss is allocated.

D7 If a subsidiary, or part of a subsidiary, with a non-controlling interest is part of a larger cash-generating unit, goodwill impairment losses are allocated to the parts of the cash-generating unit that have a non-controlling interest and the parts that do not. The impairment losses should be allocated to the parts of the cash-generating unit on the basis of:

(a) To the extent that the impairment relates to goodwill in the cash-generating unit, the relative carrying values of the goodwill of the parts before the impairment; and

(b) To the extent that the impairment relates to identifiable assets in the cash-generating unit, the relative carrying values of the net identifiable assets of the parts before the impairment. Any such impairment is allocated to the assets of the parts of each unit pro rata on the basis of the carrying amount of each asset in the part.

In those parts that have a non-controlling interest, the impairment loss is allocated between the parent and the non-controlling interest on the same basis as that on which profit or loss is allocated.

D8 If an impairment loss attributable to a non-controlling interest relates to goodwill that is not recognized in the parent's consolidated financial statements (see paragraph C4), that impairment is not recognized as a goodwill impairment loss. In such cases, only the impairment loss relating to the goodwill that is allocated to the parent is recognized as a goodwill impairment loss.

D9 Illustrative Example 9 illustrates the impairment testing of a non-wholly-owned cash-generating unit with goodwill.

Four new examples are added to the implementation guidance after paragraph IG29 as follows:

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 26. All the examples assume that the entities concerned have no transactions other than those described.

Example 7 – Allocating goodwill when an entity disposes of an operation within that unit

Background

IG30. An entity sells for CU100 an operation that was part of a cash-generating unit to which goodwill has been allocated. The goodwill allocated to the unit cannot be identified or associated with an asset group at a level lower than that unit, except arbitrarily. The recoverable amount of the portion of the cash-generating unit retained is CU300.

Allocation of goodwill

IG31. *Because the goodwill allocated to the cash-generating unit cannot be non-arbitrarily identified or associated with an asset group at a level lower than that unit, the goodwill associated with the operation disposed of is measured on the basis of the relative values of the operation disposed of and the portion of the unit retained. Therefore, 25 per cent of the goodwill allocated to the cash-generating unit is included in the carrying amount of the operation that is sold.*

Example 8 – Allocating goodwill when an entity reorganizes a cash-generating unit

Background

IG32. Goodwill had previously been allocated to cash-generating unit A. The goodwill allocated to A cannot be identified or associated with an asset group at a level lower than A, except arbitrarily. A is to be divided and integrated into three other cash-generating units, B, C and D.

Allocation of goodwill

IG33. *Because the goodwill allocated to A cannot be non-arbitrarily identified or associated with an asset group at a level lower than A, it is reallocated to units B, C and D on the basis of the relative values of the three portions of A before those portions are integrated with B, C and D.*

Example 9 Impairment testing cash-generating units with goodwill and non-controlling interests

Example 9A Non-controlling interests measured initially as a proportionate share of the net identifiable assets

In this example, tax effects are ignored.

Background

IG34. Controlling entity acquires an 80 per cent ownership interest in controlled entity for CU2,100 on January 1, 20X3. At that date, Controlled entity's net identifiable assets have a fair value of CU1,500. Controlling entity chooses to measure the non-controlling interests as the proportionate interest of Controlled entity's net identifiable assets of CU300 (20% of CU1,500). Goodwill of CU900 is the difference between the aggregate of the consideration transferred and the amount of the non-controlling interests (CU2,100 + CU300) and the net identifiable assets (CU1,500).

IG35. The assets of Controlled entity together are the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Therefore Controlled entity is a cash-generating unit. Because other cash-generating units of Controlling entity are expected to benefit from the synergies of the combination, the goodwill of CU500 related to those synergies has been allocated to other cash-generating units within Controlling entity. Because the cash-generating unit comprising Controlled entity includes goodwill within its carrying amount, it must be tested for impairment annually, or more frequently if there is an indication that it may be impaired (see paragraph 90K of IPSAS 26).

IG36. At the end of 20X3, Controlling entity determines that the recoverable amount of cash-generating unit Controlled entity is CU1,000. The carrying amount of the net assets of Controlled entity, excluding goodwill, is CU1,350.

Testing Controlled entity (cash-generating unit) for impairment

IG37. Goodwill attributable to non-controlling interests is included in Controlled entity's recoverable amount of CU1,000 but has not been recognized in Controlling entity's consolidated financial statements. Therefore, in accordance with paragraph D4 of Appendix D of IPSAS 26, the carrying amount of Controlled entity is grossed up to include goodwill attributable to the non-controlling interests, before being compared with the recoverable amount of CU1,000. Goodwill attributable to Controlling entity's 80 per cent interest in Controlled entity at the acquisition date is CU400 after allocating CU500 to other cash-generating units within Controlling entity. Therefore, goodwill attributable to the 20 per cent non-controlling interests in Controlled entity at the acquisition date is CU100.

Schedule 1. Testing Controlled entity for impairment at the end of 20X3

End of 20X3	*Goodwill of Controlled entity*	*Net identifiable assets*	*Total*
	CU	CU	CU
Carrying amount	400	1,350	1,750
Unrecognized non-controlling	100	—	100
Adjusted carrying amount	500	1,350	1,850
Recoverable amount			1,000
Impairment loss			850

Allocating the impairment loss

IG38. In accordance with paragraph 91 of IPSAS 26, the impairment loss of CU850 is allocated to the assets in the unit by first reducing the carrying amount of goodwill.

IG39. Therefore, CU500 of the CU850 impairment loss for the unit is allocated to the goodwill. In accordance with paragraph D6 of Appendix D of IPSAS 26, if the partially-owned controlled entity is itself a cash-generating unit, the goodwill impairment loss is allocated to the controlling and non-controlling interests on the same basis as that on which surplus or deficit is allocated. In this example, surplus or deficit is allocated on the basis of relative ownership interests. Because the goodwill is recognized only to the extent of Controlling entity's 80 per cent ownership interest in Controlled entity, Controlling entity recognizes only 80 per cent of that goodwill impairment loss (ie CU400).

IG40. The remaining impairment loss of CU350 is recognized by reducing the carrying amounts of Controlled entity's identifiable assets (see Schedule 2).

Schedule 2. Allocation of the impairment loss for Controlled entity at the end of 20X3

End of 20X3	*Goodwill*	*Net identifiable assets*	*Total*
	CU	CU	CU
Carrying amount	400	1,350	1,750
Impairment loss	(400)	(350)	(750)
Carrying amount after impairment loss	–	1,000	1,000

Example 9B Non-controlling interests measured initially at fair value and the related controlled entity is a stand-alone cash-generating unit

In this example, tax effects are ignored.

Background

IG41. Controlling entity acquires an 80 per cent ownership interest in Controlled entity for CU2,100 on January 1, 20X3. At that date, Controlled entity's net identifiable assets have a fair value of CU1,500. Controlling entity chooses to measure the non-controlling interests at fair value, which is CU350. Goodwill of CU950 is the difference between the aggregate of the consideration transferred and the amount of the non-controlling interests (CU2,100 + CU350) and the net identifiable assets (CU1,500).

IG42. The assets of Controlled entity together are the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Therefore, Controlled entity is a cash-generating unit. Because other cash-generating units of Controlling entity are expected to benefit from the synergies of the combination, the goodwill of CU500 related to those synergies has been allocated to other cash-generating units within Controlling entity. Because Controlled entity includes goodwill within its carrying amount, it must be tested for impairment annually, or more frequently if there is an indication that it might be impaired (see paragraph 90K of IPSAS 26).

Testing Controlled entity for impairment

IG43. At the end of 20X3, Controlling entity determines that the recoverable amount of cash-generating unit Controlled entity is CU1,650. The carrying amount of the net assets of Controlled entity, excluding goodwill, is CU1,350.

Schedule 1. Testing Controlled entity for impairment at the end of 20X3

End of 20X3	*Goodwill*	*Net identifiable assets*	*Total*
	CU	CU	CU
Carrying amount	450	1,350	1,800
Recoverable amount			1,650
Impairment loss			150

Allocating the impairment loss

IG44. In accordance with paragraph 91 of IPSAS 26, the impairment loss of CU150 is allocated to the assets in the unit by first reducing the carrying amount of goodwill.

IG45. Therefore, the full amount of impairment loss of CU150 for the unit is allocated to the goodwill. In accordance with paragraph D6 of Appendix D of IPSAS 26, if the partially-owned Controlled entity is itself a cash-generating unit, the goodwill impairment loss is allocated to the controlling and non-controlling interests on the same basis as that on which surplus or deficit is allocated.

Example 9C Non-controlling interests measured initially at fair value and the related controlled entity is part of a larger cash-generating unit

In this example, tax effects are ignored.

Background

IG46. Suppose that, for the entity combination described in paragraph IG41 of Example 9B, the assets of Controlled entity will generate cash inflows together with other assets or groups of assets of Controlling entity. Therefore, rather than Controlled entity being the cash-generating unit for the purposes of impairment testing, Controlled entity becomes part of a larger cash-generating unit, Z. Other cash-generating units of Controlling entity are also expected to benefit from the synergies of the combination. Therefore, goodwill related to those synergies, in the amount of CU500, has been allocated to those other cash-generating units. Z's goodwill related to previous entity combinations is CU800.

IG47. Because Z includes goodwill within its carrying amount, both from Controlled entity and from previous entity combinations, it must be tested for impairment annually, or more frequently if there is an indication that it might be impaired (see paragraph 90K of IPSAS 26).

Testing Controlled entity for impairment

IG48. At the end of 20X3, Controlling entity determines that the recoverable amount of cash-generating unit Z is CU3,300. The carrying amount of the net assets of Z, excluding goodwill, is CU2,250.

Schedule 3. Testing Z for impairment at the end of 20X3

End of 20X3	*Goodwill*	*Net identifiable assets*	*Total*
	CU	CU	CU
Carrying amount	1,250	2,250	3,500
Recoverable amount			3,300
Impairment loss			200

Allocating the impairment loss

IG49. In accordance with paragraph 91 of IPSAS 26, the impairment loss of CU200 is allocated to the assets in the unit by first reducing the carrying amount of goodwill. Therefore, the full amount of impairment loss of CU200 for cash-generating unit Z is allocated to the goodwill. In accordance with paragraph D7 of Appendix D of IPSAS 26, if the partially-owned Controlled entity forms part of a larger cash-generating unit, the goodwill impairment loss would be allocated first to the parts of the cash-generating unit, Z, and then to the controlling and non-controlling interests of the partially owned Controlled entity.

IG50. Controlling entity allocates the impairment loss to the parts of the cash-generating unit on the basis of the relative carrying values of the goodwill of the parts before the impairment. In this example Controlled entity is allocated 36 per cent of the impairment (450/1,250). The impairment loss is then allocated to the controlling and non-controlling interests on the same basis as that on which surplus or deficit is allocated.

Example 10 Disclosures about cash-generating units with goodwill or intangible assets with indefinite useful lives

The purpose of this example is to illustrate the disclosures required by paragraphs 123 and 124 of IPSAS 26.

Background

IG51. Entity M is a multinational manufacturing firm that uses geographical segments for reporting segment information. M’s three reportable segments are Europe, North America and Asia. Goodwill has been allocated for impairment testing purposes to three individual cash-generating units—two in Europe (units A and B) and one in North America (unit C)—and to one group of cash-generating units (comprising operation XYZ) in Asia. Units A, B and C and operation XYZ each represent the lowest level within M at which the goodwill is monitored for internal management purposes.

IG52. M acquired unit C, a manufacturing operation in North America, in December 20X2. Unlike M's other North American operations, C operates in an industry with high margins and high growth rates, and with the benefit of a 10-year patent on its primary product. The patent was granted to C just before M's acquisition of C. As part of accounting for the acquisition of C, M recognized, in addition to the patent, goodwill of CU3,000 and a brand name of CU1,000. M's management has determined that the brand name has an indefinite useful life. M has no other intangible assets with indefinite useful lives.

IG53. The carrying amounts of goodwill and intangible assets with indefinite useful lives allocated to units A, B and C and to operation XYZ are as follows:

	Goodwill	*Intangible assets with indefinite useful lives*
	CU	CU
A	350	
B	450	
C	3,000	1,000
XYZ	1,200	
Total	5,000	1,000

IG54. During the year ending December 31, 20X3, M determines that there is no impairment of any of its cash-generating units or group of cash-generating units containing goodwill or intangible assets with indefinite useful lives. The recoverable amounts (i.e. higher of value in use and fair value less costs to sell) of those units and group of units are determined on the basis of value in use calculations. M has determined that the recoverable amount calculations are most sensitive to changes in the following assumptions:

Units A and B	*Unit C*	*Operation XYZ*
Gross margin during the budget period (budget period is 4 years)	5-year US government bond rate during the budget period (budget period is 5 years)	Gross margin during the budget period (budget period is 5 years)
Raw materials price inflation during the budget period	Raw materials price inflation during the budget period	Japanese yen/US dollar exchange rate during the budget period
Market share during the budget period	Market share during the budget period	Market share during the budget period
Growth rate used to extrapolate cash flows beyond the budget period	Growth rate used to extrapolate cash flows beyond the budget period	Growth rate used to extrapolate cash flows beyond the budget period

IG55. Gross margins during the budget period for A, B and XYZ are estimated by M based on average gross margins achieved in the period immediately before the start of the budget period, increased by 5 per cent per year for anticipated efficiency improvements. A and B produce complementary products and are operated by M to achieve the same gross margins.

IG56. Market shares during the budget period are estimated by M based on average market shares achieved in the period immediately before the start of the budget period, adjusted each year for any anticipated growth or decline in market shares. M anticipates that:

(a) market shares for A and B will differ, but will each grow during the budget period by 3 per cent per year as a result of ongoing improvements in product quality.

(b) C’s market share will grow during the budget period by 6 per cent per year as a result of increased advertising expenditure and the benefits from the protection of the 10-year patent on its primary product.

(c) XYZ’s market share will remain unchanged during the budget period as a result of the combination of ongoing improvements in product quality and an anticipated increase in competition.

IG57. A and B purchase raw materials from the same European suppliers, whereas C’s raw materials are purchased from various North American suppliers. Raw materials price inflation during the budget period is estimated by M to be consistent with forecast consumer price indices published by government agencies in the relevant European and North American countries.

IG58. The 5-year US government bond rate during the budget period is estimated by M to be consistent with the yield on such bonds at the beginning of the budget period. The Japanese yen/US dollar exchange rate is estimated by M to be consistent with the average market forward exchange rate over the budget period.

IG59. M uses steady growth rates to extrapolate beyond the budget period cash flows for A, B, C and XYX. The growth rates for A, B and XYZ are estimated by M to be consistent with publicly available information about the long-term average growth rates for the markets in which A, B and XYZ operate. However, the growth rate for C exceeds the long-term average growth rate for the market in which C operates. M's management is of the opinion that this is reasonable in the light of the protection of the 10-year patent on C's primary product.

IG60. M includes the following disclosure in the notes to its financial statements for the year ending December 31, 20X3.

Impairment Tests for Goodwill and Intangible Assets with Indefinite Lives

Goodwill has been allocated for impairment testing purposes to three individual cash-generating units—two in Europe (units A and B) and one in North America (unit C)—and to one group of cash-generating units (comprising operation XYZ) in Asia. The carrying amount of goodwill allocated to unit C and operation XYZ is significant in comparison with the total carrying amount of goodwill, but the carrying amount of goodwill allocated to each of units A and B is not. Nevertheless, the recoverable amounts of units A and B are based on some of the same key assumptions, and the aggregate carrying amount of goodwill allocated to those units is significant.

Operation XYZ

The recoverable amount of operation XYZ has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 8.4 per cent. Cash flows beyond that five-year period have been extrapolated using a steady 6.3 per cent growth rate. This growth rate does not exceed the long-term average growth rate for the market in which XYZ operates. Management believes that any reasonably possible change in the key assumptions on which XYZ's recoverable amount is based would *not* cause XYZ's carrying amount to exceed its recoverable amount.

Unit C

The recoverable amount of unit C has also been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 9.2 per cent. C's cash flows beyond the five-year period are extrapolated using a steady 12 per cent growth rate. This growth rate exceeds by 4 percentage points the long-term average growth rate for the market in which C operates. However, C benefits from the protection of a 10-year patent on its primary product, granted in December 20X2. Management believes that a 12 per cent growth rate is reasonable in the light of that patent. Management also believes that any reasonably possible change in the key assumptions

on which C's recoverable amount is based would *not* cause C's carrying amount to exceed its recoverable amount.

Units A and B

The recoverable amounts of units A and B have been determined on the basis of value in use calculations. Those units produce complementary products, and their recoverable amounts are based on some of the same key assumptions. Both value in use calculations use cash flow projections based on financial budgets approved by management covering a four-year period, and a discount rate of 7.9 per cent. Both sets of cash flows beyond the four-year period are extrapolated using a steady 5 per cent growth rate. This growth rate does not exceed the long-term average growth rate for the market in which A and B operate. Cash flow projections during the budget period for both A and B are also based on the same expected gross margins during the budget period and the same raw materials price inflation during the budget period. Management believes that any reasonably possible change in any of these key assumptions would *not* cause the aggregate carrying amount of A and B to exceed the aggregate recoverable amount of those units.

	Operation XYZ	*Unit C*	*Units A and B (in aggregate)*
Carrying amount of goodwill	CU1,200	CU3,000	CU800
Carrying amount of brand name with indefinite useful life	–	CU1,000	–
Key assumptions used in value in use calculations[a]			
• Key assumption	• Budgeted gross margins	• 5-year US government bond rate	• Budgeted gross margins
• Basis for determining value(s) assigned to key assumption	• Average gross margins achieved in period immediately before the budget period, increased for expected efficiency improvements.	• Yield on 5-year US government bonds at the beginning of the budget period.	• Average gross margins achieved in period immediately before the budget period, increased for expected efficiency improvements.

	• Values assigned to key assumption reflect past experience, except for efficiency improvements. Management believes improvements of 5% per year are reasonably achievable.	• Value assigned to key assumption is consistent with external sources of information	• Values assigned to key assumption reflect past experience, except for efficiency improvements. Management believes improvements of 5% per year are reasonably achievable.
• Key assumption	• Japanese yen/US dollar exchange rate during the budget period	• Raw materials price inflation	• Raw materials price inflation
• Basis for determining value(s) assigned to key assumption	• Average market forward exchange rate over the budget period.	• Forecast consumer price indices during the budget period for North American countries from which raw materials are purchased.	• Forecast consumer price indices during the budget period for European countries from which raw materials are purchased.
	• Value assigned to key assumption is consistent with external sources of information.	• Value assigned to key assumption is consistent with external sources of information.	• Value assigned to key assumption is consistent with external sources of information.
• Key assumption	• Budgeted market share	• Budgeted market share	
• Basis for determining value(s) assigned to key assumption	• Average market share in period immediately before the budget period.	• Average market share in period immediately before the budget period, increased	

		each year for anticipated growth in market share.
	• Value assigned to key assumption reflects past experience. No change in market share expected as a result of ongoing product quality improvements coupled with anticipated increase in competition.	• Management believes market share growth of 6% per year is reasonably achievable due to increased advertising expenditure, the benefits from the protection of the 10-year patent on C's primary product, and the expected synergies to be achieved from operating C as part of M's North American segment.

a The key assumptions shown in this table for units A and B are only those that are used in the recoverable amount calculations for both units.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of the proposed International Public Sector Accounting Standard.

Background

BC1. The International Public Sector Accounting Standards Board (IPSASB)'s International Financial Reporting Standards (IFRSs) Convergence Program is an important element in IPSASB's work program. The IPSASB's policy is to converge accrual basis International Public Sector Accounting Standards (IPSASs) with IFRSs issued by the International Accounting Standards Board (IASB) where appropriate for public sector entities.

BC2. Accrual basis IPSASs that are converged with IFRSs maintain the requirements, structure and text of the IFRSs, unless there is a public sector specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS are not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSASs and their equivalent IFRSs are identified in the 'Comparison with IFRS' included in each IPSAS. The Comparison with IFRS 3 references the December 31, 2008 version of IFRS 3.

BC3. The phrase "entity combination" has been used instead of "business combination" to reflect that public sector entities undertake both cash-generating activities and non-cash-generating activities.

Scope

BC4. In entity combinations in the private sector, former owners of the entity are compensated with cash or other financial instruments at an amount approximately equal to the value of the assets acquired less the liabilities assumed. However, entity combinations in the public sector generally do not represent an exchange transaction but rather are based on a non-exchange transaction. The former owners of the entity, if compensated, are not compensated at an amount approximately equal to the value of the entity. Because this is a public sector specific issue, entity combinations that result from non-exchange transactions have been excluded from the scope of this Standard and will be dealt with in a separate public sector specific project.

Replacement of "business" with "operation"

BC5. In IFRS 3, an acquirer acquires a business. In this Standard, the term "business" has been replaced with "operation" to encompass integrated sets of activities which have either a primary objective for the purpose of providing economic benefits, such as providing a commercial return, or for the purpose of providing service potential, such as the provision of goods and services.

Exception to the recognition principle

Contingent liabilities

BC6. IFRS 3 requires recognition of any contingent liabilities of the acquiree where it is a present obligation that arises from past events and its fair value can be measured reliably. The scope of IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets" excludes provisions and contingent liabilities arising from social benefits from non-exchange transactions. For the sake of clarity, the Board considered that it was important to include the scope exemption in IPSAS 19 in this Standard, as well.

Exceptions to the measurement principle

Share-based payment awards

BC7. IFRS 3 includes guidance on the measurement of share-based payment awards where an acquirer replaces the acquiree's share-based payment award with another award. This section and the related Application Guidance has not been included in IPSAS XX (ED 41) as the Board considers that an acquirer (applying this Standard) will not replace the acquiree's share-based payment award with another share-based payment award because public sector entities do not award share-based payment.

Reverse acquisitions

BC8. IFRS 3 includes, in its Application Guidance, a section on accounting for a reverse acquisition. The Board considered that the usual drivers for a reverse acquisition, such as a back door listing, do not exist for public sector entities and therefore has not included this section in IPSAS XX (ED 41).

ILLUSTRATIVE EXAMPLES

CONTENTS

Paragraph

Identifiable intangible assets IE1–IE29

Marketing-related intangible assets IE3–IE7

Customer or user-related intangible assets IE8–IE16

Artistic-related intangible assets IE17–IE18

Contract-based intangible assets IE19–IE23

Technology-based intangible assets IE24–IE29

Gain on a bargain purchase IE30–IE34

Measurement period IE35–IE38

Determining what is part of the entity combination from an exchange transaction IE39–IE45

Settlement of a pre-existing relationship IE39–IE42

Contingent payments to employees IE43–IE45

Disclosure requirements IE46

IFRS 3 *Business Combinations*
Illustrative examples

These examples accompany, but are not part of, IFRS 3IPSAS XX (ED 41).

Reverse acquisitions

Illustrating the consequences of recognising a reverse acquisition by applying paragraphs B19–B27 of IFRS 3.

IE1 This example illustrates the accounting for a reverse acquisition in which Entity B, the legal subsidiary, acquires Entity A, the entity issuing equity instruments and therefore the legal parent, in a reverse acquisition on 30 September 20X6. This example ignores the accounting for any income tax effects.

IE2 The statements of financial position of Entity A and Entity B immediately before the business combination are:

	Entity A (legal parent, accounting acquiree)	**Entity B** (legal subsidiary, accounting acquirer)
	CU	**CU**
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		
Retained earnings	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

IE3 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. All of Entity B's shareholders exchange their 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 CU40. The quoted market price of Entity A's ordinary shares at that date is CU16.

(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 CU1,500.

Calculating the fair value of the consideration transferred

IE4 As a result of Entity A (legal parent, accounting acquiree) issuing 150 ordinary shares, Entity B's shareholders own 60 per cent of the issued shares of the combined entity (ie 150 of 250 issued shares). The remaining 40 per cent are owned by Entity A's shareholders. If the business combination 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 shareholders would then own 60 of the 100 issued shares of Entity B—60 per cent 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 CU1,600 (40 shares with a fair value per share of CU40).

IE5 The fair value of the consideration effectively transferred should be based on the most reliable measure. In this example, the quoted market price of Entity A's shares provides a more reliable basis for measuring the consideration effectively transferred than the estimated 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 CU16.

Measuring goodwill

IE6 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:

	CU	CU
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)	
Non-current liabilities	(400)	(1,300)
Goodwill		300

Consolidated statement of financial position at 30 September 20X6

IE7 The consolidated statement of financial position immediately after the business combination is:

	CU
Current assets [CU700 + CU500]	1,200
Non-current assets [CU3,000 + CU1,500]	4,500
Goodwill	300
Total assets	6,000
Current liabilities [CU600 + CU300]	900
Non-current liabilities [CU1,100 + CU400]	1,500
Total liabilities	2,400
Shareholders' equity	
Retained earnings	1,400
Issued equity	
250 ordinary shares [CU600 + CU1,600]	2,200
Total shareholders' equity	3,600
Total liabilities and shareholders' equity	6,000

IE8 The amount recognised as issued equity interests in the consolidated financial statements (CU2,200) is determined by adding the issued equity of the legal subsidiary immediately

before the business combination (CU600) and the fair value of the consideration effectively transferred (CU1,600). However, the equity structure appearing in the consolidated financial statements (ie the number and type of equity interests issued) must reflect the equity structure of the legal parent, including the equity interests issued by the legal parent to effect the combination.

Earnings per share

IE9 Assume that Entity B's earnings for the annual period ended 31 December 20X5 were CU600 and that the consolidated earnings for the annual period ended 31 December 20X6 were CU800. Assume also that there was no change in the number of ordinary shares issued by Entity B during the annual period ended 31 December 20X5 and during the period from 1 January 20X6 to the date of the reverse acquisition on 30 September 20X6. Earnings per share for the annual period ended 31 December 20X6 is calculated as follows:

Number of shares deemed to be outstanding for the period from 1 January 20X6 to the acquisition date (ie the number of ordinary shares issued by Entity A (legal parent, accounting acquiree) in the reverse acquisition)	150
Number of shares outstanding from the acquisition date to 31 December 20X6	250
Weighted average number of ordinary shares outstanding [(150 x 9/12) + (250 x 3/12)]	175
Earnings per share [800/175]	CU4.57

IE10 Restated earnings per share for the annual period ended 31 December 20X5 is CU4.00 (calculated as the earnings of Entity B of 600 divided by the number of ordinary shares Entity A issued in the reverse acquisition (150)).

Non-controlling interest

IE11 Assume the same facts as above, except 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 per cent 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 acquiree, 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 A is the accounting acquirer, and paragraph B20 of IFRS 3 require the acquirer to measure the consideration exchanged for the accounting acquiree.

IE12 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 shareholders own 56 shares of Entity B. For that to represent a 58.3 per cent equity interest, Entity B would have had to issue an additional 40 shares. The majority shareholders would then own 56

~~of the 96 issued shares of Entity B and, therefore, 58.3 per cent of the combined entity. As a result, the fair value of the consideration transferred for Entity A, the accounting acquiree, is CU1,600 (ie 40 shares, each with a fair value of CU40). That is the same amount as when all 60 of Entity B's shareholders tender all 60 of its ordinary shares for exchange. The recognised amount of the group's interest in Entity A, the accounting acquiree, does not change if some of Entity B's shareholders do not participate in the exchange.~~

~~IE13 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 per cent. 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 subsidiary. Therefore, the consolidated statement of financial position is adjusted to show a non-controlling interest of 6.7 per cent of the pre-combination carrying amounts of Entity B's net assets (ie CU134 or 6.7 per cent of CU2,000).~~

~~IE14 The consolidated statement of financial position at 30 September 20X6, reflecting the non-controlling interest is as follows:~~

	~~CU~~
~~Current assets [CU700 + CU500]~~	~~1,200~~
~~Non-current assets [CU3,000 + CU1,500]~~	~~4,500~~
~~Goodwill~~	~~300~~
~~Total assets~~	~~6,000~~
~~Current liabilities [CU600 + CU300]~~	~~900~~
~~Non-current liabilities [CU1,100 + CU400]~~	~~1,500~~
~~Total liabilities~~	~~2,400~~
~~Shareholders' equity~~	
~~Retained earnings [CU1,400 x 93.3 per cent]~~	~~1,306~~
~~Issued equity~~	
~~240 ordinary shares [CU560 + CU1,600]~~	~~2,160~~
~~Non-controlling interest~~	~~134~~
~~Total shareholders' equity~~	~~3,600~~
~~Total liabilities and shareholders' equity~~	~~6,000~~

~~IE15 The non-controlling interest of CU134 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 (CU1,400 x 6.7 per cent or CU93.80). The second component represents the reclassification of the non-controlling interest's share of the accounting acquirer's issued equity (CU600 x 6.7 per cent or CU40.20).~~

Identifiable intangible assets

Illustrating the consequences of applying paragraphs ~~10–14~~ 15 – 20 and ~~B31–B40~~ AG25–AG34 of ~~IFRS 3~~IPSAS XX (ED 41).

~~IE16~~IE1. The following are examples of identifiable intangible assets acquired in ~~a business~~ an entity combination from an exchange transaction. 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.

~~IE17~~IE2. Intangible assets identified as having a contractual basis are those that arise from contractual or other legal rights. Those designated as having a non-contractual basis do not arise from contractual or other legal rights but are separable. Intangible assets identified as having a non-contractual basis may arise from a binding arrangement. Intangible assets identified as having a contractual basis might also be separable but separability is not a necessary condition for an asset to meet the contractual-legal-binding criterion.

Marketing-related intangible assets

~~IE18~~IE3. 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	Contractual
Trade dress (unique color, shape or package design)	Contractual
Newspaper mastheads	Contractual
Internet domain names	Contractual
Non-competition agreements	Contractual

Trademarks, trade names, service marks, collective marks and certification marks

~~IE19~~IE4. 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.

~~IE20~~IE5. 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 ~~a business~~ an entity combination from an exchange transaction is an intangible asset that meets the contractual-legal-binding criterion. Otherwise, a trademark or other mark acquired in ~~a business~~ an entity combination can be recognized separately from goodwill if the separability criterion is met, which normally it would be.

~~IE21~~IE6. 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. ~~IFRS 3~~ IPSAS XX (ED 41) does not preclude an entity from recognizing, 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

~~IE22~~IE7. 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 ~~a business~~ an entity combination from an exchange transaction meets the contractual-legal-binding criterion.

Customer- or user-related intangible assets

~~IE23~~IE8. Examples of customer-related intangible assets are:

Class	Basis
Customer lists	Non-contractual
Lists of users of a service	Non-contractual
Order or production backlog	Contractual
Customer contracts and related customer relationships	Contractual
Non-contractual user relationships	Non-contractual
Non-contractual customer relationships	Non-contractual

Customer lists and user lists

~~IE24~~IE9. A customer list or a list of users of services consists of information about customers or users, such as their names and contact information. A customer or user list also may be in the form of a database that includes other information about the customers, such as their order histories and demographic information. A customer or user list does not usually arise from contractual or other legal rights. However, customer lists are often

leased or exchanged and, in rare circumstances, a user list may be exchanged. Therefore, a customer or user list acquired in ~~a business~~ an entity combination from an exchange transaction normally meets the separability criterion.

Order or production backlog

~~IE25~~IE10. An order or production backlog arises from contracts such as purchase or sales orders. An order or production backlog acquired in ~~a business~~ an entity combination from an exchange transaction meets the contractual-legal-binding criterion even if the purchase or sales orders can be cancelled.

Customer contracts and the related customer relationships

~~IE26~~IE11. If an entity establishes relationships with its customers through contracts, those customer relationships arise from contractual rights. Therefore, customer contracts and the related customer relationships acquired in ~~a business~~ an entity combination from an exchange transaction meet the contractual-legal-binding criterion, even if confidentiality or other contractual terms prohibit the sale or transfer of a contract separately from the acquiree.

~~IE27~~IE12. A customer contract and the related customer relationship may represent two distinct intangible assets. Both the useful lives and the pattern in which the economic benefits of the two assets are consumed may differ.

~~IE28~~IE13. A customer relationship exists between an entity and its customer if (a) the entity has information about the customer and has regular contact with the customer and (b) the customer has the ability to make direct contact with the entity. Customer relationships meet the contractual-legal-binding criterion if an entity has a practice of establishing contracts with its customers, regardless of whether a contract exists at the acquisition date. Customer relationships may also arise through means other than contracts, such as through regular contact by sales or service representatives.

~~IE29~~IE14. As noted in paragraph ~~IE25~~IE10, an order or a production backlog arises from contracts such as purchase or sales orders and is therefore considered a contractual right. Consequently, if an entity has relationships with its customers through these types of contracts, the customer relationships also arise from contractual rights and therefore meet the contractual-legal-binding criterion.

Examples

~~IE30~~IE15. The following examples illustrate the recognition of customer contract and customer relationship intangible assets acquired in ~~a business~~ an entity combination from an exchange transaction.

(a) Acquirer Company (AC) acquires Target Company (TC) in an entity combination from an exchange transaction ~~a business combination~~ on December 31, 20X5. TC has a five-year agreement to supply goods to Customer. Both TC and AC believe that Customer will renew the agreement at the end of the current contract. The agreement is not separable.

The agreement, whether cancellable or not, meets the contractual-legal-binding criterion. Additionally, because TC establishes its relationship with Customer through a contract, not only the agreement itself but also TC's customer relationship with Customer meet the contractual-legal-binding criterion.

(b) AC acquires TC in an entity combination from an exchange transaction ~~a business combination~~ on December 31, 20X5. TC manufactures goods in two distinct lines of business: sporting goods and electronics. Customer purchases both sporting goods and electronics from TC. TC has a contract with Customer to be its exclusive provider of sporting goods but has no contract for the supply of electronics to Customer. Both TC and AC believe that only one overall customer relationship exists between TC and Customer.

The contract to be Customer's exclusive supplier of sporting goods, whether cancellable or not, meets the contractual-legal-binding criterion. Additionally, because TC establishes its relationship with Customer through a contract, the customer relationship with Customer meets the contractual-legal-binding criterion. Because TC has only one customer relationship with Customer, the fair value of that relationship incorporates assumptions about TC's relationship with Customer related to both sporting goods and electronics. However, if AC determines that the customer relationships with Customer for sporting goods and for electronics are separate from each other, AC would assess whether the customer relationship for electronics meets the separability criterion for identification as an intangible asset.

(c) AC acquires TC in an entity combination from an exchange transaction ~~a business combination~~ on December 31, 20X5. TC does business with its customers solely through purchase and sales orders. At December 31, 20X5, TC has a backlog of customer purchase orders from 60 per cent of its customers, all of whom are recurring customers. The other 40 per cent of TC's customers are also recurring customers. However, as of December 31, 20X5, TC has no open purchase orders or other contracts with those customers.

Regardless of whether they are cancellable or not, the purchase orders from 60 per cent of TC's customers meet the contractual-legal-binding criterion. Additionally, because TC has established its relationship with 60 per cent of its customers through contracts, not only the purchase orders but also TC's customer relationships meet the contractual-legal-binding criterion. Because TC has a practice of establishing contracts with the remaining 40 per cent of its customers, its relationship with those customers also arises through contractual rights and therefore meets the contractual-legal-binding criterion even though TC does not have contracts with those customers at December 31, 20X5.

(d) AC acquires TC, an insurer, in an entity combination from an exchange transaction on December 31, 20X5. TC has a portfolio of one-year motor insurance contracts that are cancellable by policyholders.

Because TC establishes its relationships with policyholders through insurance contracts, the customer relationship with policyholders meets the contractual-

legal-binding criterion. ~~IAS 36 *Impairment of Assets*~~ IPSAS 26, “Impairment of Cash-Generating Assets” and ~~IAS 38 *Intangible Assets*~~ IPSAS XX (ED 40), “Intangible Assets” apply to the customer relationship intangible asset.

Non-contractual customer relationships

~~IE31~~IE16. A customer relationship acquired in an entity combination from an exchange transaction ~~a business combination~~ that does not arise from a contract may nevertheless be identifiable because the relationship is separable. Exchange transactions for the same asset or a similar asset that indicate that other entities have sold or otherwise transferred a particular type of non-contractual customer relationship would provide evidence that the relationship is separable.

Artistic-related intangible assets

~~IE32~~IE17. Examples of artistic-related intangible assets are:

Class	Basis
Plays, operas and ballets	Contractual
Books, magazines, newspapers and other literary works	Contractual
Musical works such as compositions, song lyrics and advertising jingles	Contractual
Pictures and photographs	Contractual
Video and audiovisual material, including motion pictures or films, music videos and television programs	Contractual

~~IE33~~IE18. Artistic-related assets acquired in an entity combination from an exchange transaction ~~a business combination~~ are identifiable if they arise from contractual 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 recognizing a copyright intangible asset and any related assignments or licence agreements as a single asset, provided they have similar useful lives.

Contract-based intangible assets

~~IE34~~IE19. Contract-based intangible assets represent the value of rights that arise from contractual arrangements. Customer contracts are one type of contract-based intangible asset. If the terms of a contract give rise to a liability (for example, if the terms of an operating lease or customer contract are unfavorable relative to market terms), the acquirer recognizes it as a liability assumed in the entity combination from an exchange transaction~~business combination~~. Examples of contract-based intangible assets are:

Class	Basis
Licensing, royalty and standstill agreements	Contractual
Advertising, construction, management, service or supply contracts	Contractual
Lease agreements (whether the acquiree is the lessee or the lessor)	Contractual
Construction permits	Contractual
Franchise agreements	Contractual
Operating and broadcast rights	Contractual
Servicing contracts~~, such as mortgage servicing contracts~~	Contractual
Employment contracts	Contractual
Use rights, such as drilling, water, air, timber cutting and route authorities	Contractual

Servicing contracts~~, such as mortgage servicing contracts~~

~~IE35~~IE20. Contracts to service financial assets are one type of contract-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 contractually separated 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.

~~IE36~~IE21. If mortgage loans, credit card receivables or other financial assets are acquired in an entity combination from an exchange transaction ~~a business combination~~ 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.

Employment contracts

~~IE37~~IE22. Employment contracts that are beneficial contracts from the perspective of the employer because the pricing of those contracts is favorable relative to market terms are one type of contract-based intangible asset.

Use rights

~~IE38~~IE23. Use rights include rights for drilling, water, air, timber cutting and route authorities. Some use rights are contract-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

~~IE39~~IE24. Examples of technology-based intangible assets are:

Class	Basis
Patented technology	Contractual
Computer software and mask works	Contractual
Unpatented technology	Non-contractual
Databases, including title plants	Non-contractual
Trade secrets, such as secret formulas, processes and recipes	Contractual

Computer software and mask works

~~IE40~~IE25. Computer software and program formats acquired in an entity combination from an exchange transaction ~~a business combination~~ that are protected legally, such as by patent or copyright, meet the contractual-legal-binding criterion for identification as intangible assets.

~~IE41~~IE26. 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 entity combination from an exchange transaction ~~a business combination~~ meet the contractual-legal-binding criterion for identification as intangible assets.

Databases, including title plants

~~IE42~~IE27. 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 entity combination from an exchange transaction ~~a business combination~~ and protected by copyright meets the contractual-legal-binding criterion. However, a database typically includes information created as a consequence of an entity's normal operations, such as customer or user lists, or specialized 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 entity combination from an exchange transaction ~~a business combination~~ meets the separability criterion.

~~IE43~~IE28. 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 entity combination from an exchange transaction ~~a business combination~~ meet the separability criterion.

Trade secrets, such as secret formulas, processes and recipes

~~IE44~~IE29. 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 or service potential from a trade secret acquired in an entity combination from an exchange transaction ~~a business combination~~ are legally protected, that asset meets the contractual-legal~~-~~binding criterion. Otherwise, trade secrets acquired in an entity combination from an exchange transaction ~~a business combination~~ are identifiable only if the separability criterion is met, which is likely to be the case.

Gain on a bargain purchase

Illustrating the consequences of recognizing and measuring a gain from a bargain purchase by applying paragraphs ~~32–36~~ 38 – 42 of ~~IFRS 3~~IPSAS XX (ED 41).

~~IE45~~IE30. The following example illustrates the accounting for an entity combination from an exchange transaction ~~a business combination~~ in which a gain on a bargain purchase is recognized.

~~IE46~~IE31. On January 1, 20X5 AC acquires 80 per cent of the equity interests of TC, a private entity, in exchange for cash of CU150. Because the former owners of TC needed to dispose of their investments in TC by a specified date, they did not have sufficient time to market TC to multiple potential buyers. The management of AC initially measures the separately recognizable identifiable assets acquired and the liabilities assumed as of the acquisition date in accordance with the requirements of ~~IFRS 3~~IPSAS XX (ED 41). The identifiable assets are measured at CU250 and the liabilities assumed are measured at CU50. AC engages an independent consultant, who determines that the fair value of the 20 per cent non-controlling interest in TC is CU42.

~~IE47~~IE32. The amount of TC's identifiable net assets (CU200, calculated as CU250 – CU50) exceeds the fair value of the consideration transferred plus the fair value of the non-controlling interest in TC. Therefore, AC 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 TC and the consideration transferred. After that review, AC decides that the procedures and resulting measures were appropriate. AC measures the gain on its purchase of the 80 per cent interest as follows:

* Melvin Simensky and Lanning Bryer, *The New Role of Intellectual Property in Commercial Transactions* (New York: John Wiley & Sons, 1998), page 293.

			CU
Amount of the identifiable net assets acquired (CU250 – CU50)			200
Less:	Fair value of the consideration transferred for AC's 80 per cent interest in TC; plus	150	
	Fair value of non-controlling interest in TC	42	
			192
Gain on bargain purchase of 80 per cent interest			8

~~IE48~~IE33. AC would record its acquisition of TC in its consolidated financial statements as follows:

	CU	CU
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 TC		42

~~IE49~~IE34. If the acquirer chose to measure the non-controlling interest in TC on the basis of its proportionate interest in the identifiable net assets of the acquiree, the recognized amount of the non-controlling interest would be CU40 (CU200 x 0.20). The gain on the bargain purchase then would be CU10 (CU200 – (CU150 + CU40)).

Measurement period

Illustrating the consequences of applying paragraphs ~~45–50~~ 50 – 55 of ~~IFRS 3~~IPSAS XX (ED 41).

~~IE50~~IE35. If the initial accounting for an entity combination from an exchange transaction ~~a business combination~~ is not complete at the end of the financial reporting period in which the combination occurs, paragraph ~~45~~ 50 of ~~IFRS 3~~ IPSAS XX (ED 41) requires the acquirer to recognize in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer recognizes 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 recognized as of that date. Paragraph ~~49~~ 54 of ~~IFRS 3~~ IPSAS XX (ED 41) requires the acquirer to recognize such adjustments as if the accounting for the entity combination from an exchange transaction ~~business combination~~ had been completed at the acquisition date. Measurement period adjustments are not included in ~~profit or loss~~surplus or deficit.

~~IE51~~IE36. Suppose that AC acquires TC on September 30, 20X7. AC 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 AC authorized for issue its financial

statements for the year ended December 31, 20X7. In its 20X7 annual financial statements, AC recognized a provisional fair value for the asset of CU30,000. 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, AC received the independent valuation, which estimated the asset's acquisition-date fair value as CU40,000.

~~IE52~~IE37. In its financial statements for the year ended December 31, 20X8, AC retrospectively adjusts the 20X7 prior year information as follows:

(a) The carrying amount of property, plant and equipment as of December 31, 20X7 is increased by CU9,500. That adjustment is measured as the fair value adjustment at the acquisition date of CU10,000 less the additional depreciation that would have been recognized if the asset's fair value at the acquisition date had been recognized from that date (CU500 for three months' depreciation).

(b) The carrying amount of goodwill as of December 31, 20X7 is decreased by CU10,000.

(c) Depreciation expense for 20X7 is increased by CU500.

~~IE53~~IE38. In accordance with paragraph ~~B67~~ AG56 of ~~IFRS 3~~IPSAS XX (ED 41), AC discloses:

(a) In its 20X7 financial statements, that the initial accounting for the entity combination from an exchange transaction ~~business combination~~ 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 recognized during the current reporting period. Therefore, AC 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 CU9,500, offset by a decrease to goodwill of CU10,000 and an increase in depreciation expense of CU500.

Determining what is part of the ~~business~~ entity combination from an exchange transaction

Settlement of a pre-existing relationship

Illustrating the consequences of applying paragraphs ~~51~~56, ~~52~~ 57 and ~~B50–B53~~ AG46–AG49 of ~~IFRS 3~~IPSAS XX (ED 41).

~~IE54~~IE39. AC purchases electronic components from TC under a five-year supply contract at fixed rates. Currently, the fixed rates are higher than the rates at which AC could purchase similar electronic components from another supplier. The supply contract allows AC to terminate the contract before the end of the initial five-year term but only by paying a CU6 million penalty. With three years remaining under the supply contract, AC pays CU50 million to acquire TC, which is the fair value of TC based on what other market participants would be willing to pay.

~~IE55~~IE40. Included in the total fair value of TC is CU8 million related to the fair value of the supply contract with AC. The CU8 million represents a CU3 million component that is 'at market' because the pricing is comparable to pricing for current market

transactions for the same or similar items (selling effort, customer relationships and so on) and a CU5 million component for pricing that is unfavorable to AC because it exceeds the price of current market transactions for similar items. TC has no other identifiable assets or liabilities related to the supply contract, and AC has not recognized any assets or liabilities related to the supply contract before the entity combination from an exchange transactionbusiness combination.

IE56IE41. In this example, AC calculates a loss of CU5 million (the lesser of the CU6 million stated settlement amount and the amount by which the contract is unfavorable to the acquirer) separately from the entity combination from an exchange transactionbusiness combination. The CU3 million 'at-market' component of the contract is part of goodwill.

IE57IE42. Whether AC had recognized previously an amount in its financial statements related to a pre-existing relationship will affect the amount recognized as a gain or loss for the effective settlement of the relationship. Suppose that IFRSs IPSASs had required AC to recognize a CU6 million liability for the supply contract before the entity combination from an exchange transactionbusiness combination. In that situation, AC recognizes a CU1 million settlement gain on the contract in profit or loss surplus or deficit at the acquisition date (the CU5 million measured loss on the contract less the CU6 million loss previously recognized). In other words, AC has in effect settled a recognized liability of CU6 million for CU5 million, resulting in a gain of CU1 million.

Contingent payments to employees

Illustrating the consequences of applying paragraphs 5156, 5257, B50AG46, B54 AG50 and B55 AG51 of IFRS 3IPSAS XX (ED 41).

IE58IE43. TC appointed a candidate as its new CEO under a ten-year contract. The contract required TC to pay the candidate CU5 million if TC is acquired before the contract expires. AC acquires TC eight years later. The CEO was still employed at the acquisition date and will receive the additional payment under the existing contract.

IE59IE44. In this example, TC 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 AC or the combined entity. Therefore, the liability to pay CU5 million is included in the application of the acquisition method.

IE60IE45. In other circumstances, TC might enter into a similar agreement with CEO at the suggestion of AC during the negotiations for the entity combination from an exchange transactionbusiness combination. If so, the primary purpose of the agreement might be to provide severance pay to CEO, and the agreement may primarily benefit AC or the combined entity rather than TC or its former owners. In that situation, AC accounts for the liability to pay CEO in its post-combination financial statements separately from application of the acquisition method.

Replacement awards

Illustrating the consequences of applying paragraphs 51, 52 and B56–B62 of IFRS 3.

IE61 The following examples illustrate replacement awards that the acquirer was obliged to issue in the following circumstances:

		Acquiree awards Has the vesting period been completed before the business combination?	
		Completed	**Not completed**
Replacement awards Are employees required to provide additional service after the acquisition date?	**Not required**	Example 1	Example 4
	Required	Example 2	Example 3

IE62 The examples assume that all awards are classified as equity.

Example 1

Acquiree awards	*Vesting period **completed** before the business combination*
Replacement awards	*Additional employee services **are not** required after the acquisition date*

IE63 AC issues replacement awards of CU110 (market-based measure) at the acquisition date for TC awards of CU100 (market-based measure) at the acquisition date. No post-combination services are required for the replacement awards and TC's employees had rendered all of the required service for the acquiree awards as of the acquisition date.

IE64 The amount attributable to pre-combination service is the market-based measure of TC's awards (CU100) at the acquisition date; that amount is included in the consideration transferred in the business combination. The amount attributable to post-combination service is CU10, which is the difference between the total value of the replacement awards (CU110) and the portion attributable to pre-combination service (CU100). Because no post-combination service is required for the replacement awards, AC immediately recognises CU10 as remuneration cost in its post-combination financial statements.

Example 2

Acquiree awards	*Vesting period **completed** before the business combination*
Replacement awards	*Additional employee services **are** required after the acquisition date*

IE65 AC exchanges replacement awards that require one year of post-combination service for share-based payment awards of TC, for which employees had completed the vesting period before the business

combination. The market-based measure of both awards is CU100 at the acquisition date. When originally granted, TC's awards had a vesting period of four years. As of the acquisition date, the TC employees holding unexercised awards had rendered a total of seven years of service since the grant date.

IE66 Even though TC employees had already rendered all of the service, AC attributes a portion of the replacement award to post-combination remuneration cost in accordance with paragraph B59 of IFRS 3, because the replacement awards require one year of post-combination service. The total vesting period is five years—the vesting period for the original acquiree award completed before the acquisition date (four years) plus the vesting period for the replacement award (one year).

IE67 The portion attributable to pre-combination services equals the market-based measure of the acquiree award (CU100) multiplied by the ratio of the pre-combination vesting period (four years) to the total vesting period (five years). Thus, CU80 (CU100 x 4/5 years) is attributed to the pre-combination vesting period and therefore included in the consideration transferred in the business combination. The remaining CU20 is attributed to the post-combination vesting period and is therefore recognised as remuneration cost in AC's post-combination financial statements in accordance with IFRS 2.

Example 3

Acquiree awards	*Vesting period **not completed** before the business combination*
Replacement awards	*Additional employee services **are** required after the acquisition date*

IE68 AC exchanges replacement awards that require one year of post-combination service for share-based payment awards of TC, for which employees had not yet rendered all of the service as of the acquisition date. The market-based measure of both awards is CU100 at the acquisition date. When originally granted, the awards of TC had a vesting period of four years. As of the acquisition date, the TC employees had rendered two years' service, and they would have been required to render two additional years of service after the acquisition date for their awards to vest. Accordingly, only a portion of the TC awards is attributable to pre-combination service.

IE69 The replacement awards require only one year of post-combination service. Because employees have already rendered two years of service, the total vesting period is three years. The portion attributable to pre-combination services equals the market-based measure of the acquiree award (CU100) multiplied by the ratio of the pre-combination vesting period (two years) to the greater of the total vesting period (three years) or the original vesting period of TC's award (four years). Thus, CU50 (CU100 x 2/4 years) is attributable to pre-combination service and therefore included in the consideration transferred for the acquiree. The remaining CU50 is attributable to post-combination service and therefore recognised as remuneration cost in AC's post-combination financial statements.

Example 4

Acquiree awards	*Vesting period **not completed** before the business combination*
Replacement awards	*Additional employee services **are not** required after the acquisition date*

~~IE70 Assume the same facts as in Example 3 above, except that AC exchanges replacement awards that require no post-combination service for share-based payment awards of TC for which employees had not yet rendered all of the service as of the acquisition date. The terms of the replaced TC awards did not eliminate any remaining vesting period upon a change in control. (If the TC awards had included a provision that eliminated any remaining vesting period upon a change in control, the guidance in Example 1 would apply.) The market-based measure of both awards is CU100. Because employees have already rendered two years of service and the replacement awards do not require any post-combination service, the total vesting period is two years.~~

~~IE71 The portion of the market-based measure of the replacement awards attributable to pre-combination services equals the market-based measure of the acquiree award (CU100) multiplied by the ratio of the pre-combination vesting period (two years) to the **greater of** the total vesting period (two years) or the original vesting period of TC's award (four years). Thus, CU50 (CU100 x 2/4 years) is attributable to pre-combination service and therefore included in the consideration transferred for the acquiree. The remaining CU50 is attributable to post-combination service. Because no post-combination service is required to vest in the replacement award, AC recognises the entire CU50 immediately as remuneration cost in the post-combination financial statements.~~

Disclosure requirements

Illustrating the consequences of applying the disclosure requirements in paragraphs ~~59-63~~ 64 – 68 and ~~B64-B67~~ AG53–AG56 of ~~IFRS 3~~IPSAS XX (ED 41).

~~IE72~~IE46. The following example illustrates some of the disclosure requirements of ~~IFRS 3~~IPSAS XX (ED 41); it is not based on an actual transaction. The example assumes that ~~AC is a listed entity and that~~ TC is an unlisted 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.

Footnote X: Acquisitions

Paragraph reference		
~~B64~~AG53.(a–d)	On June 30, 20X0 AC acquired 15 per cent of the outstanding ordinary shares of TC. On June 30, 20X2 AC acquired 60 per cent of the outstanding ordinary shares of TC and obtained control of TC. TC is a provider of data networking products and services in Canada and Mexico. As a result of the acquisition, AC is expected to be the leading provider of data networking products and services in those markets. It also expects to reduce costs through economies of scale.	
AG53. ~~B64~~(e)	The goodwill of CU2,500 arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of AC and TC.	
AG53. ~~B64~~(~~k~~l)	None of the goodwill recognized is expected to be deductible for income tax purposes. The following table summarizes the consideration paid for TC and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date, as well as the fair value at the acquisition date of the non-controlling interest in TC.	
At June 30, 20X2		
	Consideration	**CU**
AG53. ~~B64~~(f)(i)	Cash	5,000
AG53. ~~B64~~(f)(iv)	Equity instruments (100,000 ordinary shares of AC)	4,000
AG53. ~~B64~~(f)(iii); AG53. ~~B64~~(~~g~~h)(i)	Contingent consideration arrangement	1,000
AG53. ~~B64~~(f)	**Total consideration transferred**	10,000
AG53. ~~B64~~(~~p~~q)(i)	**Fair value of AC's equity interest in TC held before the ~~business~~ entity combination**	2,000
		12,000
AG53. ~~B64~~(~~m~~n)	**Acquisition-related costs** (included in selling, general and administrative expenses in AC's statement of ~~comprehensive income~~ financial performance for the year ended December 31, 20X2)	1,250
AG53. ~~B64~~(~~i~~j)	**Recognized amounts of identifiable assets acquired and liabilities assumed**	
	Financial assets	3,500

Reference	Item	Amount
	Inventory	1,000
	Property, plant and equipment	10,000
	Identifiable intangible assets	3,300
	Financial liabilities	-4,000
	Contingent liability	-1,000
	Total identifiable net assets	12,800
AG53. ~~B64~~(~~o~~p)(i)	**Non-controlling interest in TC**	-3,300
	Goodwill	2,500
		12,000

AG53. ~~B64~~(f)(iv) — The fair value of the 100,000 ordinary shares issued as part of the consideration paid for TC (CU4,000) was determined on the basis of the closing market price of AC's ordinary shares on the acquisition date.

AG53. ~~B64~~(f)(iii); AG53. ~~B64~~(~~g~~h); ~~B67~~AG56. (b) — The contingent consideration arrangement requires AC to pay the former owners of TC 5 per cent of the revenues of XC, an unconsolidated equity investment owned by TC, in excess of CU7,500 for 20X3, up to a maximum amount of CU2,500 (undiscounted).

The potential undiscounted amount of all future payments that AC could be required to make under the contingent consideration arrangement is between CU0 and CU2,500.

The fair value of the contingent consideration arrangement of CU1,000 was estimated by applying the income approach. The fair value estimates are based on an assumed discount rate range of 20–25 per cent and assumed probability-adjusted revenues in XC of CU10,000–20,000.

As of December 31, 20X2, neither the amount recognized for the contingent consideration arrangement, nor the range of outcomes or the assumptions used to develop the estimates had changed.

AG53. ~~B64~~(~~h~~i) — The fair value of the financial assets acquired includes receivables under finance leases of data networking equipment with a fair value of CU2,375. The gross amount due under the contracts is CU3,100, of which CU450 is expected to be uncollectible.

~~B67~~AG56. (a) — The fair value of the acquired identifiable intangible assets of CU3,300 is provisional pending receipt of the final valuations for those assets.

AG53. ~~B64~~(~~j~~k); ~~B67~~AG56. (c); ~~IAS 37.84, 85~~IPSAS 19.97, 98 — A contingent liability of CU1,000 has been recognized for expected warranty claims on products sold by TC 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 AC could be required to make under the warranty

arrangements is estimated to be between CU500 and CU1,500. As of December 31, 20X2, there has been no change since June 30, 20X2 in the amount recognized for the liability or any change in the range of outcomes or assumptions used to develop the estimates.

AG53. ~~B64~~(~~o~~p) The fair value of the non-controlling interest in TC, an unlisted company, was estimated by applying a market approach and an income approach. The fair value estimates are based on:

(a) an assumed discount rate range of 20–25 per cent;

(b) an assumed terminal value based on a range of terminal EBITDA multiples between 3 and 5 times (or, if appropriate, based on long term sustainable growth rates ranging from 3 to 6 per cent);

(c) assumed financial multiples of companies deemed to be similar to TC; and

(d) assumed adjustments because of the lack of control or lack of marketability that market participants would consider when estimating the fair value of the non-controlling interest in TC.

AG53. ~~B64~~(~~p~~q)(ii) AC recognized a gain of CU500 as a result of measuring at fair value its 15 per cent equity interest in TC held before the ~~business~~ entity combination. The gain is included in other income in AC's statement of ~~comprehensive income~~ financial performance for the year ending December 31, 20X2.

AG53. ~~B64~~(~~q~~r)(i) The revenue included in the consolidated statement of financial performance ~~comprehensive income~~ since June 30, 20X2 contributed by TC was CU4,090. TC also contributed ~~profit~~ surplus of CU1,710 over the same period.

AG53. ~~B64~~(~~q~~r)(ii) Had TC been consolidated from January 1, 20X2 the consolidated statement of ~~comprehensive income~~ financial performance would have included revenue of CU27,670 and ~~profit~~ surplus of CU12,870.

Comparison with IFRS 3

IPSAS XX (ED 41), "Entity Combinations from Exchange Transactions," is drawn primarily from IFRS 3, "Business Combinations" (revised in 2008). The main differences between IPSAS XX (ED 41) and IFRS 3 are as follows:

- Commentary additional to that in IFRS 3 has been included in various paragraphs of IPSAS XX (ED 41) to clarify the applicability of the requirements to accounting by public sector entities.
- IPSAS XX (ED 41) has replaced the term "business" with "operation" so that an entity combination includes either cash-generating activities or non-cash-generating activities.
- IPSAS XX (ED 41) uses different terminology, in certain instances, from IFRS 3. The most significant examples are the use of the terms "Statement of Financial Position," "Statement of Financial Performance," "revenue," "economic entity," "controlling entity" and "controlled entities" in IPSAS XX (ED 41). The equivalent terms in IFRS 3 are "Balance Sheet," "Income Statement," "income," "group," "parent" and "subsidiaries."
- IPSAS XX (ED 41) does not include guidance on the measurement of share-based payment awards where the acquirer replaces the acquiree's share-based payment award with another award.
- IPSAS XX (ED 41) does not include guidance on accounting for reverse acquisitions.

International Federation of Accountants
545 Fifth Avenue, 14th Floor, New York, NY 10017 USA
Tel +1 (212) 286-9344 Fax +1(212) 286-9570 www.ifac.org