Zambia Institute of Chartered Accountants
Competence, Integrity and Virtue

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The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto, Ontario M5V 3H2
CANADA

Dear Stephenie,

Comments on Consultation Paper on Public Sector Combinations

The Zambia Institute of Chartered Accountants welcomes the opportunity to comment on the Consultation Paper issued by the International Public Sector Accounting Standards Board (IPSASB), in June 2012 entitled Public Sector Combinations.

The Institute supports the IPSASB's efforts to serve the public interest by setting high-quality public sector accounting standards, thereby enhancing the quality and consistency of practice throughout the world.

Our comments on the Consultation Paper on Public Sector Combinations are as follows:

Question 1

In your view, is the scope of this CP appropriate?

Comment
The Institute believes that the scope of the Consultation Paper is appropriate as it covers principal areas of accounting; the timing of recognition, and the initial measurement basis or

approach that could be adopted for the wide range of combinations that may occur in the public sector.

Question 2

In your view, is the approach used in this CP of distinguishing between acquisitions and amalgamations, with a further distinction for PSCs NUCC and UCC, appropriate? If you do not support this approach, what alternatives should be considered? Please explain your reasoning.

Comment

In your view, the approach used in this CP of distinguishing between acquisitions and amalgamations, with a further distinction for PSCs NUCC and UCC, is appropriate. The CP has considered the wide range of combinations that may occur in the public sector.

Question 3

In your view, are there other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations?

Comment

We have not identified other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations.

Question 4

In your view, should the recipient in an acquisition NUCC recognize in its financial statements, the acquired operation's assets and liabilities by:
(a) Applying fair value measurement to the identifiable assets acquired and liabilities assumed in the operation at the date of acquisition for all acquisitions (Approach A);

(b) Distinguishing between different types of acquisitions (Approach B) so that:

(i) For acquisitions where no or nominal consideration is transferred, the carrying amounts of the assets and liabilities in the acquired operation's financial statements are recognized, with amounts adjusted to align the operation's accounting policies to those of the recipient, at the date of acquisition; and
(ii) For acquisitions where consideration is transferred, fair value measurement is applied to the identifiable assets acquired and liabilities assumed in the operation, at the date of acquisition; or
(c) Another approach?

Please explain why you support Approach A, Approach B or another approach.

Comment

The Institute supports approach B in accounting for acquisitions. As highlighted in paragraph 5.15 the use of fair value as a measurement basis for all acquisitions in the public sector is not appropriate when no or nominal consideration is transferred. We therefore, support the view that a distinction between different types of acquisitions is required so that the appropriate measurement basis or approach can be applied. A fair value of the asset taken over makes sense only in a commercial transaction, when a price is paid and a cash generating unit is taken over.

Question 5

In your view, where the consideration transferred is in excess of the net assets acquired, should the difference arising in an acquisition NUCC (for both Approach A and Approach B, acquisitions where consideration is transferred) be recognized in the recipient's financial statements, on the date of acquisition, as:
(a) Goodwill for acquisitions where the acquired operation is cash-generating and a loss for all other acquisitions;
(b) Goodwill for all acquisitions (which would require development of a definition of goodwill that encompasses the notion of service potential); or
(c) A loss for all acquisitions?

Please explain why you support (a), (b), or (c).

Comment
The Institute supports approach (b). We believe that a gain or loss should be recognized in all cases provided fair value has been used. This approach would be in line with IFRS 3, business combinations.

Question 6

In your view, should the recipient in an acquisition UCC recognize in its financial statements, on the date of acquisition, the difference arising as:
(a) A gain or loss recognized in surplus or deficit (in the statement of financial performance);
(b) A contribution from owners or distribution to owners recognized directly in net assets/equity (in the statement of financial position); or
(c) A gain or loss recognized directly in net assets/equity (in the statement of financial position), except where the transferor is the ultimate controlling entity and then the gain or loss meets the definition of a contribution from owners or distribution to owners?

Please explain why you support (a), (b), or (c).

Comment

We support Approach (c): the profit/loss should not be recognized in income, but in equity (in the statement of financial position).

Question 7

In your view, should the accounting treatment for the recipient and transferor of an acquisition UCC be symmetrical?

Comment

We are of the view that**,** the accounting treatment for the recipient and transferor of an acquisition UCC should be symmetrical.

The Institute will be ready to respond to any matters arising from the above comments.

Yours faithfully

Musonda Boniface

Technical Officer