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PBE IPSAS 40: PBE COMBINATIONS (PAGE 1 OF 5)

PBE COMBINATIONS

- PBE Combinations only apply to the combinations of assets and liabilities which constitute an **operation.**
- An **operation** includes both:
  - An integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purpose of achieving an entity's objectives, by providing goods and/or services for community or social benefit, rather than a financial return to equity holders.
  - An integrated set of activities 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.
- PBE Combinations are classified as either:
  - Amalgamations; or
  - Acquisitions

  The accounting for which differ significantly.
- Classification depends on the economic substance of the combination.

Amalgamations

- An amalgamation gives rise to a resulting entity and is either:
  a) A PBE combination in which no party to the combination gains control of one or more operations (refer PBR IPSAS 40.AG10 –AG18 for guidance); or
  b) A PBE combination in which one party to the combination gains control of one or more operations, and in which there is evidence that the combination has the economic substance of an amalgamation.
- The assessment of **control** is set out in PBE IPSAS 40.AG10 -.AG18.
- An amalgamation results in a **resulting entity** – i.e., the entity that is the result of two or more operations combining in an amalgamation.
- The following indicators, individually or in combination, will usually provide evidence that the economic substance of the combination is that of an amalgamation:
  - The absence of consideration paid .
  - The PBE combination is imposed by a third party without any party to the combination being involved in the decision-making process.
  - The PBE combination is subject to approval by each party's citizens through referenda.
  - The PBE combination combines operations that are under common control.
- If the above indicators are not conclusive (normally only in exceptional circumstances), then considers which classification and resulting accounting treatment would provide information that best meets the objectives of financial reporting (including the qualitative characteristics of relevance, faithful representation, understandability, timeliness, comparability and verifiability. (Refer to PBE IPSAS 40.AG42–AG46 for additional guidance.)

Acquisitions

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

SCOPE EXCLUSIONS

PBE IPSAS 40 does not apply to:

- The accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- Acquisition of an asset or group of assets that does not constitute an **operation**.
- The assumption of a liability or a group of liabilities that does not constitute an **operation.**

TIER 2 PBE STANDARDS RDR REPORTERS	PBE Standards RDR Reporters are required to comply with the recognition and measurement principles in full. However, they are granted certain disclosure exemptions under PBE IPSAS 40 Refer to paragraphs PBE IPSAS 40. RDR 119.1 and .120 - .124 for full list of exempt disclosures.

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AMALGAMATION ACCOUNTING

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

STEP 1. IDENTIFY A RESULTING ENTITY

- For each amalgamation, a **resulting entity** must be identified.
- A resulting entity is the entity that is the result of two or more operations combining in an amalgamation.
- The **resulting entity** may be either:
  - One of the parties to the amalgamation that has gained control of one or more of the combining operations (i.e., the , resulting entity is that continuing reporting entity that gained control of the other combining entity(ies)); or
  - A new reporting entity (i.e., when none of the parties to the combination that existed prior to the combination gain control over the combining operations).

STEP 2. DETERMINING THE AMALGAMATION DATE

- The date which the **resulting entity obtains control** of the combining operations.
- The amalgamation date is normally the date on which the resulting entity receives the assets and assumes the liabilities of the combining operations.
- However, it is possible the resulting entity might obtain control on a different date.
- A resulting entity must consider all pertinent facts and circumstances in identifying the amalgamation date

STEP 3. RECOGNITION AND MEASUREMENT OF ASSETS RECEIVED, LIABILITIES ASSUMED AND NON-CONTROLLING INTERESTS (NCI)

- As of the acquisition date, the resulting entity recognises in the combined operation's financial statements the assets, liabilities and any NCIs of the combining operations.
  - If any of the combining operations have not previously applied PBE Standards, the resulting entity must transition the results of those operations to be compliant with PBE Standards in accordance with the requirements of PBE FRS 47 First-time Adoption of PBE Standards . Refer to PBE IPSAS 40.AG50.1 - .50.2 for more guidance.
- The effects of all transactions between the combining operations are eliminated in preparing the financial statements of the resulting entity.
- The resulting entity classifies or designates the assets and liabilities received in an amalgamation using the classifications or designations previously applied by the combining operations.
- A resulting entity must not adopt different classifications or designations on initial recognition, unless required to do so by other PBE Standards.
- The resulting entity measures the assets and liabilities of the combining operations at their carrying amounts in the financial statements of the combining operations as of the amalgamation date.
- The resulting entity must adjust the carrying amounts of the assets and liabilities of the combining operations where required to conform to the resulting entity's accounting policies.

Exemptions to the Recognition or Measurement Principles

- Limited exemptions are provided to the recognition and measurement principles; namely:
  - A license or similar right, previously granted by one combining operation to another combining operation and recognised as an intangible asset by the recipient combining operation must be recognised by the resulting entity as an intangible asset. The license or similar right is not be eliminated.
  - Amalgamations involving public sector entities may result in a tax authority forgiving amounts of tax due as part of the terms of the amalgamation. The resulting entity must not recognise any taxation items that are forgiven as a result of the terms of the amalgamation.
  - The resulting entity must recognise and measure a liability (or asset, if any) related to the combining operations' employee benefit arrangements in accordance with PBE IPSAS 39 *Employee Benefits*.

STEP 4. RECOGNITION AND MEASUREMENT OF COMPONENTS OF NET ASSETS/EQUITY

- An amalgamation does **not** give rise to goodwill.
- The resulting entity recognises within net assets/equity the aggregate of:
  a) The carrying amounts of the combining operations' assets;
  b) The carrying amounts of the combining operations' liabilities; and
  c) The carrying amounts of the combining operations' non-controlling interests.
- The resulting entity shall recognise within net assets/equity the corresponding adjustments in respect of:
  a) The elimination of transactions between combining operations
  b) Adjustments made to the carrying amounts of the assets and liabilities of the combining operations where required to conform to the resulting entity's accounting policies; and
  c) Adjustments made in respect of the exceptions to the recognition and/or measurement principles (refer Step 3).
- The resulting entity may present the above amounts recognised within net assets/equity as either:
  a) A single opening balance; or
  b) As separate opening balances of components of net assets/equity, including any components of net assets/equity of the combining operations retained by the resulting entity.

MEASUREMENT PERIOD

- If the initial accounting for an amalgamation is incomplete by the end of the reporting period in which the amalgamation occurs, the resulting entity reports in its financial statements provisional amounts for the items for which the accounting is incomplete.
- During the measurement period, the resulting entity retrospectively adjusts the provisional amounts to reflect new information obtained.
- The measurement period ends as soon as the resulting entity receives the information it was seeking, The measurement period must not exceed one year from the amalgamation date.

AMALGAMATION RELATED COSTS

- CANNOT be capitalised, must instead be expensed in the period they are incurred.
  - Professional, attributable admin, debt raising.
- Costs to issue debt or equity are recognised in accordance with PBE IPSAS 28 Financial Instruments: Presentation, and PBE IPSAS 41 *Financial Instruments*.

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AMALGAMATION ACCOUNTING - SUBSEQUENT MEASUREMNT

- In general, a resulting entity subsequently measures and accounts for assets and liabilities received, and equity instruments issued in an amalgamation in accordance with other applicable PBE Standards for those items, depending on their nature.
- However, specific guidance for the subsequent measurement and accounting for the following assets received and liabilities assumed or incurred in an amalgamation is provided:
  - a) Licenses and similar rights previously granted by one combining operation to another combining operation.
    - A license or similar right, previously granted by one combining operation to another combining operation and recognised as an intangible asset is amortised over the remaining period of the binding arrangement in which the right was granted, where the right was granted for a finite period.
    - Where the right was granted for an indefinite period, the resulting entity tests the right for impairment at least annually, and whenever there is an indication that the right may be impaired.
    - A resulting entity that subsequently sells this license or similar right to a third party includes the carrying amount of the intangible asset in determining the gain or loss on the sale
  - b) Transfers, concessionary loans and similar benefits received by a combining operation on the basis of criteria that change as a result of an amalgamation.
    - A transfer, concessionary loan or similar benefit, previously received by a combining operation on the basis of criteria that change as a result of an amalgamation, must be reassessed prospectively in accordance with other PBE Standards
  - c) Income taxes (where not included in the terms of the amalgamation).
    - Amalgamations involving public sector entities may result in a tax authority forgiving amounts of tax subsequent to the amalgamation. The resulting entity accounts for the tax forgiven prospectively in accordance with PBE IAS 12 Income Taxes

PRESENTATION Of FINANCIAL STATEMENTS – AMALGAMATION ACCOUNTING

NEW REPORTING ENTITY

- If, following a PBE combination, the resulting entity is a new reporting entity, the resulting entity's first set of financial statements following the amalgamation comprises:
  - An opening statement of financial position as of the amalgamation date;
  - A statement of financial position as at the reporting date;
  - A statement of comprehensive revenue and expense for the period from the amalgamation date to the reporting date;
  - A statement of changes in net assets/equity for the period from the amalgamation date to the reporting date;
  - A cash flow statement for the period from the amalgamation date to the reporting date;
  - When a public sector entity has published general purpose prospective financial statements for the period from the amalgamation date to the reporting date, the information specified in paragraph 148.1 of PBE IPSAS 1 *Presentation of Financial Reports* must be presented on the face of the financial statements or as a separate statement.
  - When a not-for-profit entity has published general purpose prospective financial statements for the period from the amalgamation date to the reporting date, the information specified in paragraph 148.1 of PBE IPSAS 1 must be presented on the face of the financial statements, as a separate statement or in the notes; and
  - Notes, comprising a summary of significant accounting policies and other explanatory notes.
- The resulting entity must not present comparative information on the face of its financial statements for the periods prior to the amalgamation date.
- The resulting entity is permitted to disclose in the notes comparative information for the combining operations for the periods prior to the amalgamation date.

CONINUING REPORTING ENTITY

- If, following a PBE combination, the resulting entity is a continuing reporting entity, the resulting entity shall disclose as of the amalgamation date:
  - The amounts recognised of each major class of assets and liabilities, and components of net assets/equity from combining operations included in the resulting entity;
  - Any adjustments made to components of net assets/equity where required to conform the accounting policies of the combining operations with those of the resulting entity; and
  - Any adjustments made to eliminate transactions between the combining operations.
- The resulting entity presents comparative financial information, in respect of the continuing reporting entity only, for the period prior to the amalgamation date on the face of the financial statements but this information must not be restated.
- The resulting entity is permitted to disclose in the notes comparative financial information for the combining operations for the periods prior to the amalgamation date.

DISCLOSURES - AMALGAMATION ACCOUNTING

- The resulting entity must disclose information that enables users of its financial statements to evaluate the nature and financial effect of an amalgamation.
- For a full list of disclosures required, please refer to PBE IPSAS 40.53 - .57.

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ACQUISITION ACCOUNTING

An acquisition must be accounted for by applying the acquisition method.

STEP 1. IDENTIFY ACQUIRER

- For each acquisition, the party to the combination that gains control of one or more operations must be identified as the acquirer.
- Guidance is provided in PBE IPSAS 40.AG10 - .AG18 for the assessment of control.

STEP 2. DETERMINING THE ACQUISITION DATE

- The date which the acquirer obtains control of the acquired operation.
- The acquisition date is normally the closing date - i.e., the date on which the acquirer legally transfers the consideration and/or acquires the assets and assumes the liabilities of the acquired operation.
- However, it is possible the acquirer might obtain control on a different date.
- An acquirer must consider all pertinent facts and circumstances in identifying the acquisition date.

STEP 3. RECOGNITION AND MEASUREMENT OF ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS (NCI)

- As of the acquisition date, the acquirer recognises separately from goodwill:
  - The identifiable assets acquired;
  - The liabilities assumed; and
  - Any NCI in the acquired operation.
- The acquirer classifies or designates the identifiable assets acquired and liabilities assumed as necessary to subsequently apply other PBE Standards. The classifications or designations are made on the basis of the terms of the binding arrangement, economic conditions, operating or accounting policies and other pertinent conditions as they exist at the acquisition date.
- The acquired assets and liabilities are required to be measured at their **acquisition-date fair values.**
- NCI interests that are present ownership interests and entitle their holders to a proportionate share of the acquired operation's net assets in the event of liquidation and are measured at either (i) acquisition-date fair value or (ii) at the NCI's proportionate share in the acquired operation's net assets.
- All other components of NCI are required to be measured at their acquisition-date fair value, unless another measurement basis is required by PBE Standards .
- There are certain limited exceptions to the recognition and/or measurement principles which cover:
  - Contingent liabilities: acquirer recognises a contingent liability assumed in an acquisition even if it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation.
  - Income taxes: acquirer does not recognise any taxation items that are forgiven as a result of the terms of the acquisition. In addition, the acquirer recognises and measures a deferred tax asset or liability arising from the assets acquired and liabilities assumed in a PBE combination in accordance with PBE IAS 12 *Income Taxes*.
  - Employee benefits: acquirer rrecognises and measures a liability (or asset, if any) related to the acquired operation's employee benefit arrangements in accordance with PBE IPSAS 39 *Employee Benefits*.
  - Indemnification assets: acquirer recognises an indemnification asset at the same time that it recognises the indemnified item measured on the same basis as the indemnified item, subject to the need for a valuation allowance for uncollectible amounts
  - Reacquired rights: acquirer measures the value of a reacquired right recognised as an intangible asset on the basis of the remaining term of the related binding arrangement regardless of whether market participants would consider potential renewals of binding arrangements when measuring its fair value.
  - Share-based payment: acquirer measures a liability or an equity instrument related to share-based payment transactions in accordance with the relevant international or national accounting standard dealing with share-based payments.
  - Assets held for sale: acquirer measures held for sale assets in accordance with PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

STEP 4. RECOGNITION AND MEASUREMENT OF GOODWILL OR A GAIN FROM A BARGAIN PURCHASE

- Goodwill is required to be measured as the excess between:
  - The aggregate of the consideration transferred, any non-controlling interest in the acquired operation and, in an acquisition achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquired operation; and
  - The net acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured.
- The acquirer recognises goodwill only to the extent that:
  - The acquisition will result in the generation of net cash inflows; and
  - The goodwill arises from the acquisition of a cash-generating operation.
  - Any amounts that do not so qualify are recognised as a loss in surplus or deficit.
- If the acquirer has made a gain from a bargain purchase that gain is recognised in surplus or deficit immediately.
- The consideration transferred in a business combination (including any contingent consideration) is measured at fair value.
- Contingent consideration is either classified as a liability or s a component of net assets/equity on the basis of the definitions of an equity instrument and a financial liability in paragraph 9 of PBE IPSAS 28 *Financial Instruments: Recognition and Measurement*.
- Where an acquisition is a non-exchange acquisition without the transfer of consideration and the economic substance of the PBE combination is that of an acquisition, the acquirer does not recognise goodwill. Instead, the acquirer recognises a gain or a loss in surplus or deficit.

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ACQUISITION METHOD - STEP ACQUISITIONS

- An acquirer sometimes obtains control of an acquiree in which it held an equity interest immediately before the acquisition date. This is known as a business combination achieved in stages or a step acquisition.
- Obtaining control triggers re-measurement of previous investment (equity interests).
- The acquirer remeasured its previously held equity interest in the acquiree at its acquisition-date fair value. Any resulting gain/loss is recognised in surplus or deficit or in other comprehensive revenue and expense, as appropriate.

ADDITIONAL GUIDANCE FOR APPLYING ACQUISITION ACCOUNTING WHERE AN ACQUISITION IS ACHIEVED THROUGH CHANGES IN VOTING RIGHTS, BY CONTRACT ALONE, AND SIMILAR CIRCUMSTANCES IN WHICH NO CONSIDERATION IS TRANSFERRED

- In an acquisition achieved by contract alone, the acquirer attributes to the owners of the acquired operation the amount of the acquired operation's net assets recognised in accordance with PBE IPSAS 40.
- The equity interests in the acquired operation held by parties other than the acquirer are a non-controlling interest in the acquirer's post-combination financial statements even if the result is that all of the equity interests in the acquired operation are attributed to the non-controlling interest.

MEASUREMENT PERIOD - ACQUISITION ACCOUNTING

- If the initial accounting for an acquisition is incomplete by the end of the reporting period in which the acquisition occurs, the acquirer reports in its financial statements provisional amounts for the items for which the accounting is incomplete.
- During the measurement period, the acquirer retrospectively adjusts the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date.
- During the measurement period, the acquirer also recognises 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.
- The measurement period must not exceed one year from the acquisition date.

ACQUISITION RELATED COSTS

- CANNOT be capitalised, must instead be expensed in the period they are incurred.
  - Professional, attributable admin, debt raising.
- Costs to issue debt or equity are recognised in accordance with PBE IPSAS 28 and PBE IPSAS 41 *Financial Instruments*.

DETERMINING WHAT IS PART OF THE ACQUISITION TRANSACTION

- The acquirer and the acquired operation may have a pre-existing relationship or other arrangement before negotiations for the acquisition began, or they may enter into an arrangement during the negotiations that is separate from the acquisition.
- In either situation, the acquirer identifies any amounts that are not part of what the acquirer and the acquired operation (or its former owners) exchanged in the acquisition, i.e., amounts that are not part of the exchange for the acquired operation.
- The acquirer recognises as part of applying the acquisition method only the consideration transferred for the acquired operation and the assets acquired and liabilities assumed in the exchange for the acquired operation
- Separate transactions are accounted for in accordance with the relevant PBE Standards.

ACQUISITION ACCOUNTING - SUBSEQUENT MEASUREMENT AND ACCOUNTING

- In general, after the date of the acquisition, an acquirer measures and accounts for assets acquired and liabilities assumed or incurred and equity instruments issued in an acquisition in accordance with other applicable PBE Standards for those items, depending on their nature.
- However, PBE IPSAS 40 includes accounting requirements for reacquired rights, contingent liabilities recognised as of the acquisition date, contingent consideration, indemnification assets and income taxes (where not included in the terms of the acquisition).
- Please refer to PBE IPSAS 40.113 - .118 and .AG 107 - .AG108 for more guidance.

DISCLOSURES - ACQUISITION ACCOUNTING

- The acquirer must disclose information that enables users of its financial statements to evaluate the nature and financial effect of an acquisition that occurs either:
  - During the current reporting period; or
  - After the end of the reporting period but before the financial statements are authorised for issue.
- For a full list of disclosures required, please refer to PBE IPSAS 40.119 - .125.