

GENERAL ACCOUNTING

SECTION 1582

business combinations

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PURPOSE AND SCOPE

- .01 The purpose of this Section is to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. To accomplish that, this Section 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 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 combination.
- .02 This Section applies to a transaction or other event that meets the definition of a business combination. This Section does not apply to:
- (a) the formation of a joint arrangement;
 - (b) a combination involving a business under common control accounted for in accordance with RELATED PARTY TRANSACTIONS, paragraph 3840.44(b). [Former paragraph 1582.02(b), amended by amendments to Section 3840 (September 2023), retained in Archived Pronouncements] [Former paragraph 1582.02(b), amended by amendments to Section 3840 (December 2025), retained in Archived Pronouncements]; and
 - (c) the acquisition of an asset or a group of assets that does not constitute a business. 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 GOODWILL AND INTANGIBLE ASSETS, Section 3064) 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.

DEFINITIONS

- .03 The following terms are used in this Section with the meanings specified:
- (a) An **acquiree** is the business or businesses that the acquirer obtains control of in a business combination.
 - (b) An **acquirer** is the entity that obtains control of the acquiree.
 - (c) The **acquisition date** is the date on which the acquirer obtains control of the acquiree.
 - (d) A **business** is 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.
 - (e) A **business combination** is a transaction or other event in which an acquirer obtains control of one or more businesses. Transactions sometimes referred to as "true mergers" or "mergers of equals" and transactions meeting the criteria in paragraph 3840.44(a) are also business combinations as that term is used in this Section. [Former paragraph 1582.03(e), amended by amendments to Section 3840, retained in Archived Pronouncements]
 - (f) **Contingent consideration** is 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.
 - (g) **Control** of an entity is the continuing power to determine its strategic operating, investing and financing policies without the co-operation of others.
 - (h) **Equity interests** is used broadly to mean ownership interests of investor-owned entities and owner, member or participant interests of mutual entities.
 - (i) **Fair value** is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.
 - (j) **Goodwill** is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized.
 - (k) An asset is **identifiable** if it either:
 - (i) is separable (i.e., 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

- (ii) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
- (l) An **intangible asset** is an identifiable non-monetary asset without physical substance.
- (m) A **mutual entity** is 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 co-operative entity is a mutual entity.
- (n) A **non-controlling interest** is the equity in a subsidiary not attributable, directly or indirectly, to a parent.
- (o) **Owners** is used broadly to include holders of equity interests of investor-owned entities and owners or members of, or participants in, mutual entities.

IDENTIFYING A BUSINESS COMBINATION

- .04 *An entity shall determine whether a transaction or other event is a business combination by applying the definition in this Section, which requires that the assets acquired and liabilities assumed constitute a business. If the assets acquired are not a business, the reporting entity shall account for the transaction or other event as an asset acquisition. Paragraphs 1582.A1-.A8 provide guidance on identifying a business combination and the definition of a business.*

THE ACQUISITION METHOD

- .05 *An entity shall account for each business combination by applying the acquisition method.*

- .06 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

- .07 *For each business combination, one of the combining entities shall be identified as the acquirer.*
- .08 The guidance in SUBSIDIARIES, Section 1591, shall be used to identify the acquirer — the entity that obtains control of the acquiree. If a business combination has occurred but applying the guidance in Section 1591 does not clearly indicate which of the combining entities is the acquirer, the factors in paragraphs 1582.A10-.A14 shall be considered in making that determination.

Determining the acquisition date

- .09 *The acquirer shall identify the acquisition date, which is the date on which it obtains control of the acquiree.*
- .10 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

- .11 *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 1582.12-.13.*
- Recognition conditions
- .12 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 FINANCIAL STATEMENT CONCEPTS, Section 1000, 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 Sections.
- .13 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 combination transaction rather than the result of separate transactions. The acquirer shall apply the guidance in paragraphs 1582.53-.55 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 Sections.

- .14 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 customer 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.
- .15 Paragraphs 1582.A21-.A33 provide guidance on recognizing operating leases and intangible assets. Paragraphs 1582.22-.30 specify the types of identifiable assets and liabilities that include items for which this Section provides limited exceptions to the recognition principle and conditions.
- Classifying or designating identifiable assets acquired and liabilities assumed in a business combination
- .16 *At the acquisition date, the acquirer shall classify or designate the identifiable assets acquired and liabilities assumed as necessary to apply other Sections subsequently. The acquirer shall make those classifications or designations on the basis of the contractual terms, economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the acquisition date.*
- .17 In some situations, other Sections provide for different accounting depending on how an entity classifies or designates a particular asset or liability. An example of classifications or designations that the acquirer shall make on the basis of the pertinent conditions as they exist at the acquisition date is the designation of a derivative instrument as a hedging instrument in accordance with FINANCIAL INSTRUMENTS, Section 3856.
- .18 This Section provides an exception to the principle in paragraph 1582.16 for the classification of a lease contract as either an operating lease, capital lease, sales-type lease or a direct financing lease in accordance with LEASES, Section 3065. 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**
- .19 *The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.*
- .20 For each business 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.
- .21 Paragraphs 1582.A34-.A38 provide guidance on measuring the fair value of particular identifiable assets and a non-controlling interest in an acquiree. Paragraphs 1582.26-.33A specify the types of identifiable assets and liabilities that include items for which this Section provides limited exceptions to the measurement principle. [Former paragraph 1582.21, amended by ACCOUNTING GUIDELINE AcG-21, Accounting for Life Insurance Contracts with Cash Surrender Value, retained in Archived Pronouncements.]
- Exceptions to the recognition or measurement principles**
- .22 This Section provides limited exceptions to its recognition and measurement principles. Paragraphs 1582.23-.33A 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 1582.23-.33A, which will result in some items being:
- (a) recognized either by applying recognition conditions in addition to those in paragraphs 1582.12-.13 or by applying the requirements of other Sections, with results that differ from applying the recognition principle and conditions; and
 - (b) measured at an amount other than their acquisition-date fair values.
- [Former paragraph 1582.22, amended by ACCOUNTING GUIDELINE AcG-21, Accounting for Life Insurance Contracts with Cash Surrender Value, retained in Archived Pronouncements.]
- Exception to the recognition principle
- Contingent liabilities**
- .23 CONTINGENCIES, Section 3290, defines a contingency as an existing condition or situation involving uncertainty as to possible gain or loss to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur. Resolution of the uncertainty may confirm the acquisition of an asset or the reduction of a liability or the loss or impairment of an asset or the incurrence of a liability.
- .24 The requirements in CONTINGENCIES, Section 3290, 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 combination if it is a present obligation that arises from past events and its fair value can be measured reliably. Therefore, contrary to Section 3290, the acquirer recognizes a contingent liability assumed in a business combination at the acquisition date even if it is not likely that a future event will confirm that an asset had been impaired or a liability incurred at the date of the financial statements. Paragraph 1582.58 provides guidance on the subsequent accounting for contingent liabilities.
- Exceptions to both the recognition and measurement principles
- Asset retirement obligations

- .25 The acquirer shall recognize and measure an asset retirement obligation associated with the assets acquired in a business combination in accordance with ASSET RETIREMENT OBLIGATIONS, Section 3110.

Income taxes

- .26 If the acquirer uses the future income taxes method of accounting for income taxes, then it shall recognize and measure a future income tax asset or liability arising from the assets acquired and liabilities assumed in a business combination in accordance with INCOME TAXES, Section 3465.
- .27 If the acquirer uses the future income taxes method of accounting for income taxes, then it 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 INCOME TAXES, Section 3465.

Employee benefits

- .28 The acquirer shall recognize and measure a liability (or asset, if any) related to the acquiree's employee benefit arrangements in accordance with EMPLOYEE FUTURE BENEFITS, Section 3462.

Indemnification assets

- .29 The seller in a business 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 1582.A34 provides related application guidance).
- .30 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 on the indemnified amount. Paragraph 1582.59 provides guidance on the subsequent accounting for an indemnification asset.

Exceptions to the measurement principle

Reacquired rights

- .31 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 regardless of whether market participants would consider potential contractual renewals in determining its fair value. Paragraphs 1582.A28-.A29 provide related application guidance.

Share-based payment awards

- .32 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 STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS, Section 3870. (This Section refers to the result of that method as the 'market-based measure' of the award.)

Assets held for sale

- .33 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 DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section 3475, at fair value less costs to sell in accordance with paragraphs 3475.13-.22.

Cash surrender value of a life insurance policy

- .33A The acquirer shall measure cash surrender value of a life insurance policy of the acquiree at the amount that would be immediately realized upon termination of the policy prior to the death of the insured as provided by the issuer of the policy in accordance with ACCOUNTING GUIDELINE AcG-21, Accounting for Life Insurance Contracts with Cash Surrender Value.

RECOGNIZING AND MEASURING GOODWILL OR A GAIN FROM A BARGAIN PURCHASE

- .34 *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 Section, which generally requires acquisition-date fair value (see paragraph 1582.39);*
 - (ii) *the amount of any non-controlling interest in the acquiree measured in accordance with this Section; and*

- (iii) *in a business combination achieved in stages (see paragraphs 1582.43-.44), the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree; and*
- (b) *the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this Section.*

- .35 In a business 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 acquirer's equity interests transferred. To determine the amount of goodwill in a business combination in which no consideration is transferred, 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 1582.34(a)(i)). Paragraphs 1582.A40-.A43 provide related application guidance.

Bargain purchases

- .36 Occasionally, an acquirer will make a bargain purchase, which is a business combination in which the amount in paragraph 1582.34(b) exceeds the aggregate of the amounts specified in paragraph 1582.34(a). If that excess remains after applying the requirements in paragraph 1582.38, the acquirer shall recognize the resulting gain in net income on the acquisition date. The gain shall be attributed to the acquirer.
- .37 A bargain purchase might happen, for example, in a business 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 1582.23-.33 may also result in recognizing a gain (or change the amount of a recognized gain) on a bargain purchase.
- .38 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 Section 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 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

- .39 The consideration transferred in a business 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 1582.32 rather than at fair value.) Examples of potential forms of consideration include cash, other assets, a business or a subsidiary of the acquirer, contingent consideration, common or preference equity instruments, options, warrants and member interests of mutual entities.
- .40 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 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 net income. However, sometimes the transferred assets or liabilities remain within the combined entity after the business combination (for example, because the assets or liabilities were transferred to the acquiree rather than to its former owners) and, therefore, the acquirer 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 net income on assets or liabilities it controls both before and after the business combination.

Contingent consideration

- .41 The consideration the acquirer transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement (see paragraph 1582.39). The acquirer shall recognize the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree.
- .42 The acquirer shall classify an obligation to pay contingent consideration as a liability or as equity on the basis of the definitions of an equity instrument and a financial liability in FINANCIAL INSTRUMENTS, Section 3856. The acquirer shall classify as an asset a right to the return of previously transferred consideration if specified conditions are met. Paragraph 1582.60 provides guidance on the subsequent accounting for contingent consideration.

ADDITIONAL GUIDANCE FOR APPLYING THE ACQUISITION METHOD TO PARTICULAR TYPES OF BUSINESS COMBINATIONS

A business combination achieved in stages

- .43 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 percent non-controlling equity interest in Entity B. On that date, Entity A purchases an additional 40 percent interest in Entity B, which gives it control of Entity B. This Section refers to such a transaction as a business combination achieved in stages, sometimes also referred to as a step acquisition.
- .44 In a business 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 net income.

A business combination achieved without the transfer of consideration

- .45 An acquirer sometimes obtains control of an acquiree without transferring consideration. The acquisition method of accounting for a business combination applies to those combinations. Such circumstances include the following:
- (a) The acquiree repurchases 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.
- .46 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 recognized in accordance with this Section. 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

- .47 *If the initial accounting for a business 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.*
- .48 The measurement period is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognized for a business 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 Section:
- (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 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.
- .49 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.
- .50 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.

- .51 During the measurement period, the acquirer shall recognize adjustments to the provisional amounts as if the accounting for the business 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 effects recognized in completing the initial accounting.
- .52 After the measurement period ends, the acquirer shall revise the accounting for a business combination only to correct an error in accordance with ACCOUNTING CHANGES, Section 1506.

DETERMINING WHAT IS PART OF THE BUSINESS COMBINATION TRANSACTION

- .53 *The acquirer and the acquiree may have a pre-existing relationship or other arrangement before negotiations for the business combination began, or they may enter into an arrangement during the negotiations that is separate from the business 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 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 Sections.*
- .54 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 1582.A44-.A56 provide related application guidance.

Acquisition-related costs

- .55 Acquisition-related costs are costs the acquirer incurs to effect a business 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 and equity securities shall be recognized in accordance with FINANCIAL INSTRUMENTS, Section 3856, and CAPITAL TRANSACTIONS, Section 3610, respectively.

SUBSEQUENT MEASUREMENT AND ACCOUNTING

- .56 *In general, an acquirer shall subsequently measure and account for assets acquired, liabilities assumed or incurred and equity instruments issued in a business combination in accordance with other applicable Sections for those items, depending on their nature. However, this Section provides guidance on subsequently measuring and accounting for the following assets acquired, liabilities assumed or incurred and equity instruments issued in a business combination:*
- (a) *reacquired rights;*
 - (b) *contingent liabilities recognized as of the acquisition date;*
 - (c) *indemnification assets; and*
 - (d) *contingent consideration.*

Paragraph 1582.A57 provides related application guidance.

Reacquired rights

- .57 A reacquired right recognized as an intangible asset shall be amortized over the remaining contractual period of the contract 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

- .58 After initial recognition and until the liability is settled, cancelled or expires, the acquirer shall measure a contingent liability recognized in a business combination at the higher of:
- (a) the amount that would be recognized in accordance with CONTINGENCIES, Section 3290; and
 - (b) the amount initially recognized less, if appropriate, cumulative amortization recognized in accordance with REVENUE, Section 3400.

This requirement does not apply to contracts accounted for in accordance with FINANCIAL INSTRUMENTS, Section 3856.

Indemnification assets

- .59 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 on its amount and, for an indemnification asset that is not subsequently measured at its fair value, management's assessment of the collectability 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

- .60 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 1582.47-.51. 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 equity shall not be remeasured and its subsequent settlement shall be accounted for within equity.
 - (b) Contingent consideration classified as an asset or a liability shall be remeasured at fair value when the contingency is resolved, with any gain or loss recognized in net income. The resulting asset or liability, if a financial instrument shall be accounted for subsequently, in accordance with financial instruments, Section 3856, with any gain or loss recognized in net income.

DISCLOSURE

- .61 *The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a business 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 completed.*
- .62 To meet the objective in paragraph 1582.61, the acquirer shall disclose the following information for each material business combination:
- (a) the name and a description of the acquiree;
 - (b) the acquisition date;
 - (c) the percentage of voting equity interests acquired;
 - (d) 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) liabilities incurred (for example, a liability for contingent consideration); and
 - (iii) equity interests of the acquirer, including the number of instruments or interests issued or issuable; and
 - (e) a description of the arrangement and the basis for determining the amount of the payment for contingent consideration arrangements and indemnification assets.
 - (f)-(i) (deleted)
- .62A In addition to the information listed in paragraph 1582.62, an entity shall disclose the following information:
- (a) when a material business combination consists of the acquisition of an asset or group of assets that constitutes a business, the amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed; and
 - (b) when a material business combination consists of a subsidiary that is consolidated:
 - (i) a condensed balance sheet showing the amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed;
 - (ii) the amount of the non-controlling interest in the acquiree recognized at the acquisition date and the measurement basis for that amount;
 - (iii) the amount of any gain recognized in a bargain purchase, in accordance with paragraph 1582.36, and the line item in the income statement in which the gain is recognized; and
 - (iv) in a business combination achieved in stages:
 - the acquisition-date fair value of the equity interest in the acquiree held by the acquirer immediately before the acquisition date; and
 - 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 combination (see paragraph 1582.44) and the line item in the income statement in which that gain or loss is recognized.
- .63 For individually immaterial business combinations occurring during the reporting period that are material collectively, the acquirer shall disclose the following information:

- (a) the number of businesses acquired and a brief description of those businesses;
 - (b) the acquisition-date fair value of the total consideration transferred;
 - (c) the number of equity instruments or interests of the acquirer issued or issuable; and
 - (d) a description of the arrangement and the basis for determining the amount of the payment for contingent consideration arrangements and indemnification assets.
- .64 If the acquisition date of a business combination is after the end of the reporting period but before the financial statements are completed, the acquirer shall disclose the information required by paragraphs 1582.62-.63 unless the initial accounting for the business combination is incomplete at the time the financial statements are completed. In that situation, the acquirer shall describe which disclosures could not be made and the reasons why they cannot be made.
- .65 If the specific disclosures required by this and other Sections do not meet the objectives set out in paragraph 1582.61, the acquirer shall disclose whatever additional information is necessary to meet those objectives.

EFFECTIVE DATE AND TRANSITION

- .66 Except as specified in paragraphs 1582.67-.73, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.
- .67 Amendments to paragraph 1582.55, issued in October 2012, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2013. Earlier application is permitted.
- .68 Amendments to paragraph 1582.28, issued in May 2013, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2014. Earlier application is permitted.
- .69 Amendments to paragraph 1582.60(b), issued in October 2013, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2014. These amendments are not applicable when the contingency has been resolved, and the resulting financial instrument has been extinguished, in periods prior to the year of adoption.
- .70 Amendments to paragraph 1582.62 and new paragraph 1582.62A, issued in October 2013, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2014. Earlier application is permitted.
- .71 Amendments to paragraphs 1582.02(a), 1582.08 and 1582.A9, issued in September 2014, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2016. Earlier application is permitted.
- .72 Amendments to paragraph 1582.62A, issued in October 2015, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2016. Earlier application is permitted.
- .73 Amendments to paragraph 1582.62 and new paragraphs 1582.62A(b)(iii)-(iv), issued in December 2016, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2018. Earlier application is permitted.
- .74 Amendments to paragraphs 1582.02 and 1582.03, issued in September 2023, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2025. Earlier application is permitted.
- .75 Amendments to paragraphs 1582.21 and 1582.22, and new paragraph 1582.33A, issued in September 2024, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2026. Earlier application is permitted.
- .76 Amendments to paragraph 1582.02(b) issued in December 2025, apply prospectively, as defined in ACCOUNTING CHANGES, paragraph 1506.05(g) to annual financial statements relating to fiscal years beginning on or after January 1, 2026. Earlier application is permitted.

APPENDIX APPLICATION GUIDANCE

This Appendix is an integral part of the Section.

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IDENTIFYING A BUSINESS COMBINATION (application of paragraph 1582.04)	
A1	This Section defines a business combination as a transaction or other event in which an acquirer obtains control of one or more businesses. 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);
	(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 (see paragraph 1582.45).
A2	A business combination may be structured in a variety of ways for legal, taxation or other reasons, which include but are not limited to:
	(a) one or more businesses become subsidiaries of an acquirer or the net assets of one or more businesses 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 (application of paragraph 1582.04)	
A3	A business consists of inputs and processes applied to those inputs that have the ability to create outputs. Although businesses usually have outputs, outputs are not required for an integrated set to qualify as a business. The three elements of a business 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.
- A4 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 need not include all of the inputs or processes that the seller used in operating that business if market participants are capable of acquiring the business and continuing to produce outputs (for example, by integrating the business with their own inputs and processes).
- A5 The nature of the elements of a business varies by industry and by the structure of an entity's operations (activities), including the entity's stage of development. Established businesses often have many different types of inputs, processes and outputs, whereas new businesses often have few inputs and processes and sometimes only a single output (product). Nearly all businesses also have liabilities, but a business need not have liabilities.
- A6 An integrated set of activities and assets in the development stage might not have outputs. If not, the acquirer shall consider other factors to determine whether the set is a business. 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.
- 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.
- A7 Determining whether a particular set of assets and activities is a business should be based on whether the integrated set is capable of being conducted and managed as a business by a market participant. Thus, in evaluating whether a particular set is a business, it is not relevant whether a seller operated the set as a business or whether the acquirer intends to operate the set as a business.
- A8 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. However, a business need not have goodwill.

IDENTIFYING THE ACQUIRER (application of paragraphs 1582.07-.08)

- A9 The guidance in SUBSIDIARIES, Section 1591, shall be used to identify the acquirer — the entity that obtains control of the acquiree. If a business combination has occurred but applying the guidance in Section 1591 does not clearly indicate which of the combining entities is the acquirer, the factors in paragraphs 1582.A10-.A14 shall be considered in making that determination.
- A10 In a business 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.
- A11 In a business 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 1582.A15-.A20 provide guidance on accounting for reverse acquisitions. Other pertinent facts and circumstances shall also be considered in identifying the acquirer in a business combination effected by exchanging equity interests, including:
- (a) *The relative voting rights in the combined entity after the business 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.

- A12 The acquirer is usually the combining entity whose relative size (for example, measured in assets, revenues or profit) is significantly greater than that of the other combining entity or entities.
- A13 In a business 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.
- A14 A new entity formed to effect a business combination is not necessarily the acquirer. If a new entity is formed to issue equity interests to effect a business combination, one of the combining entities that existed before the business combination shall be identified as the acquirer by applying the guidance in paragraphs 1582.A9-.A13. In contrast, a new entity that transfers cash or other assets or incurs liabilities as consideration may be the acquirer.

REVERSE ACQUISITIONS

- A15 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 1582.A9-.A14. 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. 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 Section, including the requirement to recognize goodwill, apply.

Measuring the consideration transferred

- A16 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

- A17 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).
- A18 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) recognized and measured at their pre-combination carrying amounts;
 - (b) the assets and liabilities of the legal parent (the accounting acquiree) recognized and measured in accordance with this Section;
 - (c) the retained earnings and other equity balances of the legal subsidiary (accounting acquirer) before the business combination;
 - (d) 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 1582.A19-.A20; and
 - (e) the amount recognized 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 Section. However, the equity structure (i.e., 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.

Non-controlling interest

- A19 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.

- A20 The assets and liabilities of the legal acquiree are measured and recognized in the consolidated financial statements at their pre-combination carrying amounts. 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.

RECOGNIZING PARTICULAR ASSETS ACQUIRED AND LIABILITIES ASSUMED (application of paragraphs 1582.11-.14)

Operating leases

- A21 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 1582.A22-.A23.
- A22 The acquirer shall determine whether the terms of each operating lease in which the acquiree is the lessee are favourable or unfavourable. The acquirer shall recognize an intangible asset if the terms of an operating lease are favourable relative to market terms and a liability if the terms are unfavourable relative to market terms. Paragraph 1582.A35 provides guidance on measuring the acquisition-date fair value of assets subject to operating leases in which the acquiree is the lessor.
- A23 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 1582.A34.

Intangible assets

- A24 The acquirer shall recognize, separately from goodwill, the identifiable intangible assets acquired in a business combination. An intangible asset is identifiable if it meets either the separability criterion or the contractual-legal criterion.
- A25 An intangible asset that meets the contractual-legal criterion is identifiable even if the asset is not transferable or separable from the acquiree or from other rights and obligations. Examples of such intangible assets include the following:
- (a) An acquiree leases a manufacturing facility under an operating lease that has terms that are favourable 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 favourable compared with the terms of current market transactions for the same or similar items is an intangible asset that meets the contractual-legal 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 license to operate that power plant is an intangible asset that meets the contractual-legal 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 license and the fair value of the power plant as a single asset for financial reporting purposes if the useful lives of those assets are similar.
 - (c) An 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 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.
- A26 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, 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 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 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.
- A27 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, identifiable asset or liability. For example, 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

- A28 As part of a business 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 1582.31 provides guidance on measuring a reacquired right and paragraph 1582.57 provides guidance on the subsequent accounting for a reacquired right.
- A29 If the terms of the contract giving rise to a reacquired right are favourable or unfavourable relative to the terms of current market transactions for the same or similar items, the acquirer shall recognize a settlement gain or loss. Paragraph 1582.A46 provides guidance for measuring that settlement gain or loss.

Assembled workforce and other items that are not identifiable

- A30 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 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.
- A31 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 are not themselves assets at the acquisition date, the acquirer does not recognize them separately from goodwill. The acquirer should not subsequently reclassify the value of those contracts 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.
- A32 After initial recognition, an acquirer accounts for intangible assets acquired in a business combination in accordance with the provisions of GOODWILL AND INTANGIBLE ASSETS, Section 3064. However, as described in paragraph 3064.03, the accounting for some acquired intangible assets after initial recognition is prescribed by other Sections.
- A33 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 participants would consider, such as expectations of future contract renewals, in measuring fair value. It is not necessary for the renewals themselves to meet the identifiability criteria. (However, see paragraph 1582.31, which establishes an exception to the fair value measurement principle for reacquired rights recognized in a business combination.)

MEASURING THE FAIR VALUE OF PARTICULAR IDENTIFIABLE ASSETS AND A NON-CONTROLLING INTEREST IN AN ACQUIREE (application of paragraphs 1582.19-.20)

Assets with uncertain cash flows (valuation allowances)

- A34 The acquirer shall not recognize a separate valuation allowance as of the acquisition date for assets acquired in a business 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 Section 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 cash flows that are deemed to be uncollectible at that date.

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

- A35 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 favourable or unfavourable when compared with market terms as paragraph 1582.A22 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

- A36 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

- A37 This Section 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. However, in other situations, 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.

- A38 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.

FAIR VALUE OF ASSETS AND LIABILITIES WHEN THE TAXES PAYABLE OR FUTURE INCOME TAXES METHOD IS USED

- A39 When the acquirer accounts for income taxes using the taxes payable method in accordance with INCOME TAXES, Section 3465, the fair value of an item reflects its tax base. For example, the fair value of equipment will reflect the remaining capital cost allowance available to be claimed on that equipment. Under the future income tax method, the fair value of an item assumes a tax base equal to the fair value and any difference to the actual tax base is a temporary difference that is accounted for as a future income tax asset or liability.

MEASURING GOODWILL OR A GAIN FROM A BARGAIN PURCHASE

Measuring the acquisition-date fair value of the acquirer's interest in the acquiree using valuation techniques (application of paragraph 1582.34)

- A40 In a business combination achieved without the transfer of consideration, 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 1582.34-.36). 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 1582.34)

- A41 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 1582.35 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 equity in its statement of financial position, not as an addition to retained earnings, which is consistent with the way in which other types of entities apply the acquisition method.
- A42 Although they are similar in many ways to other businesses, 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.
- A43 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 COMBINATION TRANSACTION (application of paragraphs 1582.53-.54)

- A44 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 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 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 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 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 combination may have been entered into in contemplation of the business combination to provide future economic benefits to the acquirer or the combined entity. If so, the acquiree or its former owners before the business 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 combination (application of paragraph 1582.54(a))

- A45 The acquirer and acquiree may have a relationship that existed before they contemplated the business 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).
- A46 If the business 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 of any stated settlement provisions in the contract available to the counterparty to whom the contract is unfavourable; and
 - (ii) the amount by which the contract is favourable or unfavourable from the perspective of the acquirer when compared with terms for current market transactions for the same or similar items. (An unfavourable contract is a contract that is unfavourable 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 expected to be received under it.)

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

- A47 A pre-existing relationship may be a contract that the acquirer recognizes as a reacquired right. If the contract includes terms that are favourable or unfavourable when compared with pricing for current market transactions for the same or similar items, the acquirer recognizes, separately from the business combination, a gain or loss for the effective settlement of the contract, measured in accordance with paragraph 1582.A46.

Arrangements for contingent payments to employees or selling shareholders (application of paragraph 1582.54(b))

- A48 Whether arrangements for contingent payments to employees or selling shareholders are contingent consideration in the business 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.
- A49 If it is not clear whether an arrangement for payments to employees or selling shareholders is part of the exchange for the acquiree or is a transaction separate from the business combination, the acquirer should consider the following indicators:
- (a) *Continuing employment* — The terms of continuing employment by the selling shareholders who become key employees may be an indicator of the substance of a contingent consideration arrangement. The relevant terms of continuing employment may be included in an employment agreement, acquisition agreement or some other document. A contingent consideration arrangement in which the payments are automatically forfeited if employment terminates is remuneration for post-combination services. Arrangements in which the contingent payments are not affected by employment termination may indicate that the contingent payments are additional consideration rather than remuneration.
 - (b) *Duration of continuing employment* — If the period of required employment coincides with or is longer than the contingent payment period, that fact may indicate that the contingent payments are, in substance, remuneration.
 - (c) *Level of remuneration* — Situations in which employee remuneration other than the contingent payments is at a reasonable level in comparison with that of other key employees in the combined entity may indicate that the contingent payments are additional consideration rather than remuneration.
 - (d) *Incremental payments to employees* — If selling shareholders who do not become employees receive lower contingent payments on a per-share basis than the selling shareholders who become employees of the combined entity, that fact may indicate that the incremental amount of contingent payments to the selling shareholders who become employees is remuneration.

- (e) *Number of shares owned* — The relative number of shares owned by the selling shareholders who remain as key employees may be an indicator of the substance of the contingent consideration arrangement. For example, if the selling shareholders who owned substantially all of the shares 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 who continue as key employees owned only a small number of shares of the acquiree and all selling shareholders receive the same amount of contingent consideration on a per-share basis, that fact may indicate that the contingent payments are additional consideration. The pre-acquisition ownership interests held by parties related to selling shareholders who continue as key employees, such as family members, should also be considered.
- (f) *Linkage to the valuation* — If the initial consideration transferred at the acquisition date is based on the low end of a range established in the valuation of the 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, that might suggest that the obligation is contingent consideration in the business 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 (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. 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) 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 may be contingent consideration in the business combination.

Acquirer share-based payment awards exchanged for awards held by the acquiree's employees (application of paragraph 1582.54(b))

- A50 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 STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS, Section 3870. 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 recognized 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.

- A51 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 STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS, Section 3870. 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.
- A52 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.
- A53 The portion of a non-vested replacement award attributable to post-combination service, and therefore recognized 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 recognizes 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.

- A54 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 \$100 and the acquirer expects that only 95 percent of the award will vest, the amount included in consideration transferred in the business combination is \$95. 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 STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS, Section 3870, in determining remuneration cost for the period in which an event occurs.
- A55 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 STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS, Section 3870. All changes in the market-based measure of awards classified as liabilities after the acquisition date and the related income tax effects are recognized in the acquirer's post-combination financial statements in the period(s) in which the changes occur.
- A56 The income tax effects of replacement awards of share-based payments shall be recognized in accordance with the provisions of INCOME TAXES, Section 3465.

OTHER SECTIONS THAT PROVIDE GUIDANCE ON SUBSEQUENT MEASUREMENT AND ACCOUNTING (application of paragraph 1582.56)

- A57 Examples of other Sections that provide guidance on subsequently measuring and accounting for assets acquired and liabilities assumed or incurred in a business combination include:
- (a) NON-CONTROLLING INTERESTS, Section 1602, which provides guidance on accounting for changes in a parent's ownership interest in a subsidiary after control is obtained;
 - (b) INCOME TAXES, Section 3465, which prescribes the subsequent accounting for future income tax assets (including unrecognized future income tax assets) and liabilities acquired in a business combination; and
 - (c) STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS, Section 3870, which 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.