GENERAL ACCOUNTING
SECTION 1625
comprehensive revaluation of assets and liabilities

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PURPOSE AND SCOPE

.01 This Section establishes recognition, measurement and disclosure standards dealing with the comprehensive revaluation of assets and liabilities by profit-oriented enterprises in order to establish a new cost basis.

.02 This Section does not deal with accounting by a joint arrangement for capital contributions to the joint arrangement.

DEFINITIONS

.03 The following terms are used in this Section with the meanings specified:

(a) **Control** of an enterprise is the continuing power to determine its strategic operating, investing and financing policies without the co-operation of others.

(b) A **financial reorganization** is a substantial realignment of the equity and non-equity interests of an enterprise such that the holders of one or more of the significant classes of non-equity interests and the holders of all of the significant classes of equity interests give up some (or all) of their rights and claims upon the enterprise.

(c) **Push-down accounting** is a technique that attributes revised values to the assets and liabilities reported in the financial statements of an enterprise based on a purchase transaction or transactions of its equity interests. Application of the technique results in the acquirer's cost being assigned to the assets and liabilities of the acquired enterprise.

RECOGNITION

.04 *The following conditions are required to be satisfied for an enterprise's assets and liabilities to be comprehensively revalued:*

(a) all or virtually all of the equity interests in the enterprise have been acquired, in one or more transactions between non-related parties, by an acquirer who controls the enterprise after the transaction or transactions; or

(b) the enterprise has been subject to a financial reorganization, and the same party does not control the enterprise both before and after the reorganization;

and in either situation new costs are reasonably determinable.

.05 *Identifiable assets and liabilities shall be comprehensively revalued when the conditions of paragraph* 1625.04 *are satisfied as a result of a financial reorganization.*

.06 Assets and liabilities may be comprehensively revalued (i.e., by means of push-down accounting) when the conditions of paragraph 1625.04 are satisfied as a result of an acquisition of all or virtually all of the equity interests in the enterprise.

.07 The two situations identified in paragraph 1625.04 are similar in that the holders of the equity interests in each situation have participated in bargained negotiations dealing with the enterprise as a whole. However, there are significant differences that result in a different view of a comprehensive revaluation for each situation.

.08 The financial reorganization of an enterprise in financial difficulty creates, in substance, a "new reporting entity" or a need for "fresh start" accounting. An acquisition of all or virtually all of the equity interests in an enterprise in one or more transactions between non-related parties, by an acquirer who controls the enterprise after the transaction or transactions (acquisition of an enterprise), establishes a new cost basis for a continuing enterprise.

Acquisition of an enterprise — push-down accounting

.09 In the case of an acquisition of an enterprise, the application of push-down accounting results in comparable accounting to that which would result had the acquirer either purchased the assets and assumed the liabilities of the enterprise directly or established a new legal entity to hold the assets and assume the liabilities of the acquired enterprise and to continue its operations.

.10 Acquisition of all or virtually all of the equity interests of an enterprise in one or more transactions is necessary in order to establish a sufficiently comprehensive basis for revaluing the enterprise's assets and liabilities. An acquirer that holds at least 90 percent of the equity interests after the acquisition is presumed to have acquired virtually all of the enterprise's equity interests.

.11 A comprehensive revaluation is only appropriate when the acquirer, representing an individual or group's collective interest, controls the enterprise. An assessment of whether an acquirer controls an enterprise is made in accordance with SUBSIDIARIES, Section 1591.

.12 When one or more transactions take place between non-related parties, it is presumed that the transaction or transactions have been bargained in an arm's length manner between knowledgeable, willing parties who are under no compulsion to act and, therefore, that values determined in that process represent fair value. However, transactions between related parties are not an appropriate basis for a comprehensive revaluation. (For purposes of this Section related parties are as defined in RELATED PARTY TRANSACTIONS, Section 3840).

.13 When new costs are not reasonably determinable for individual assets and liabilities, comprehensive revaluation is not appropriate. An example of when new costs are not reasonably determinable is in an acquisition when an enterprise is acquired as part of a basket purchase (i.e., when a group of assets and liabilities is acquired for a single amount) and the enterprise does not have, and cannot obtain from the acquirer, details of the purchase price and its allocation among assets and liabilities.

.14 Comprehensive revaluation of assets and liabilities through the application of push-down accounting is not required when all the conditions in paragraph 1625.04 are met as a result of the acquisition of an enterprise. Application of push-down accounting is based on the presumption that the acquirer would find the new costs more useful in evaluating investment returns and enterprise performance. In situations when the acquirer prefers to retain old cost basis financial statements (either for its own purposes or the purposes of other financial statement users, such as holders of outstanding public debt) push-down accounting is not required.

Financial reorganization

.15 An enterprise in financial difficulty may undergo a financial reorganization under a statutory process (such as the Companies' Creditors Arrangement Act) or otherwise. Regardless of the process for the financial reorganization, when the result is a substantial realignment of the non-equity and equity interests, through dilution of, or changes in, rights and entitlements, financial statements would reflect the revised relationships between creditors and shareholders.

.16 The process of undergoing a financial reorganization involves bargaining for new non-equity and equity rights and claims between the holders of various classes of non-equity and equity interests, with each party to the process acting on behalf of their own self-interest. The holders of one or more of the significant classes of non-equity interests and the holders of all of the significant classes of equity interests must participate in the process if the reorganization is to be viewed as justifying a "fresh start". In addition, the process must result in a substantial realignment such that the rights and claims of the equity and non-equity interests change relative to each other. If the same party controls the enterprise both before and after the financial reorganization, it is assumed that a substantial realignment of the non-equity and equity interests of the enterprise has not occurred and, therefore, that a comprehensive revaluation is not appropriate.

Application of recognition criteria to other situations

.17 The appropriateness of comprehensive revaluation in the following situations was also considered by the Board:

(a) an enterprise issues debt based on asset appraisals;

(b) an enterprise results from a spin-off transaction to shareholders;

(c) an enterprise undergoes a change in its operations or line of business; and

(d) transactions in the equity interests when an enterprise is a joint arrangement.

.18 The issue of debt based on asset appraisals does not, of itself, justify a comprehensive revaluation of an enterprise's assets and liabilities because there has been no change in equity interests. In addition, the issue of debt does not necessarily provide an appropriate measurement basis for the assets as factors other than the fair value of the assets may have influenced the decision of the creditor to provide the funds.

.19 When an enterprise distributes shares of another enterprise to its shareholders in a spin-off transaction, this does not result in a comprehensive revaluation of the other enterprise's assets and liabilities because there is no change in equity interests. This conclusion is consistent with the accounting treatment required in the financial statements of the transferor in NON-MONETARY TRANSACTIONS, paragraph 3831.14.

.20 An enterprise's decision to change its operations or line of business does not, of itself, justify a comprehensive revaluation of its assets and liabilities to reflect the change in use because there has been no change in equity interests.

.21 Transactions in the equity of a joint arrangement do not give rise to a comprehensive revaluation of assets and liabilities in the joint arrangement because, by definition, transactions in the equity of a joint arrangement cannot result in the acquisition of control.

ACQUISITION OF AN ENTERPRISE — PUSH-DOWN ACCOUNTING

Measurement

.22 *When a comprehensive revaluation of an enterprise's assets and liabilities is undertaken as a result of a transaction or transactions as described in paragraph* 1625.04*(a), push-down accounting shall be applied.*

.23 The application of push-down accounting provides symmetry between the carrying amounts of assets and liabilities reported in the acquired enterprise's financial statements and the carrying amounts of assets and liabilities reported in the consolidated financial statements of the parent.

.24 When applying push-down accounting, the values used are those resulting from accounting for the purchase transaction or transactions in accordance with BUSINESS COMBINATIONS, Section 1582.

.25 When an acquisition is financed by debt, in whole or in part, it is not considered appropriate for the acquired enterprise to record the debt, unless it is a liability of the acquired enterprise.

Retained earnings and the revaluation adjustment

.26 *When a comprehensive revaluation of an enterprise's assets and liabilities is undertaken as a result of a transaction or transactions as described in paragraph* 1625.04*(a), the portion of retained earnings that has not been included in the consolidated retained earnings of the acquirer or is not related to any continuing non-controlling interests in the enterprise shall be reclassified to either share capital, contributed surplus, or a separately identified account within shareholders' equity.*

.27 *The revaluation adjustment arising from a comprehensive revaluation of an enterprise's assets and liabilities undertaken as a result of a transaction or transactions as described in paragraph* 1625.04*(a) shall be accounted for as a capital transaction* (see CAPITAL TRANSACTIONS, Section 3610)*, and recorded as either share capital, contributed surplus, or a separately identified account within shareholders' equity.*

.28 Consistent with attributing the acquirer's cost in a purchase transaction or transactions to the assets and liabilities of the acquired enterprise, shareholders' equity is also restated to reflect the purchase transaction or transactions.

.29 The treatment accorded to retained earnings is also applied to other shareholders' equity accounts that arose prior to the purchase transaction or transactions and that are not specifically related to capital invested, such as exchange gains and losses arising from the translation of the financial statements of a self-sustaining foreign operation.

.30 The purpose of the revaluation of assets and liabilities is to provide information for assessing returns that reflect the investment of the controlling shareholder in the enterprise. It is consistent with this purpose that the revaluation adjustment (the net effect of the revaluation of the enterprise's assets and liabilities) is accounted for as capital of the acquired enterprise. The revaluation adjustment is included in either share capital, contributed surplus, or a separately identified account within shareholders' equity.

FINANCIAL REORGANIZATION

Measurement

.31 *The new costs of identifiable assets and liabilities of an enterprise, comprehensively revalued as a result of a financial reorganization, shall reflect the values established in the negotiation of claims among non-equity and equity interests and shall not exceed the fair value of the enterprise as a whole, if known.*

.32 Through the negotiation of claims by holders of non-equity and equity interests, a financial reorganization may establish values for the enterprise's identifiable individual assets and liabilities. When the financial reorganization does not establish values for identifiable individual assets and liabilities, values are to be estimated on a basis consistent with BUSINESS COMBINATIONS, Section 1582.

.33 In a comprehensive revaluation undertaken as a result of a financial reorganization the identifiable assets and liabilities are revalued to 100 percent of the new costs. When the revalued net asset value exceeds the fair value of the enterprise as a whole (when such value is known either through having been established in the financial reorganization process, or estimated by the enterprise) the new costs allocated to identifiable non-monetary assets are reduced by the amount of the excess based on their relative fair values at the date of the financial reorganization. When the fair value of the enterprise as a whole exceeds the revalued net asset value, the difference (goodwill) is not recorded.

.34 When the future income taxes method is used, revaluation adjustments to specific classes of identifiable assets and liabilities are made without reference to their values for tax purposes, or tax bases. The tax effects of differences between the revalued amounts of the identifiable assets and liabilities and their tax bases would be recorded as future income tax liabilities and assets in accordance with INCOME TAXES, Section 3465. In addition, the benefit of any unused tax losses or income tax reductions that meet the recognition criteria set out in INCOME TAXES, Section 3465, would be recognized as future income tax assets. The future income tax liabilities and assets recognized at the time of the financial reorganization would be included with the new costs of the other identifiable assets and liabilities in determining the amount of the total revaluation adjustment.

Retained earnings and the revaluation adjustment

.35 *When a comprehensive revaluation of an enterprise's assets and liabilities is undertaken as a result of a financial reorganization, retained earnings that arose prior to the reorganization shall be reclassified to share capital, contributed surplus, or a separately identified account within shareholders' equity.*

.36 *When a comprehensive revaluation of an enterprise's assets and liabilities is undertaken as a result of a financial reorganization, the revaluation adjustment shall be accounted for as a capital transaction* (see CAPITAL TRANSACTIONS, Section 3610) *and recorded as share capital, contributed surplus, or a separately identified account within shareholders' equity.*

.37 *Expenses directly incurred in effecting a financial reorganization shall be accounted for as a capital transaction* (see CAPITAL TRANSACTIONS, Section 3610).

.38 Prior to the comprehensive revaluation of assets and liabilities in a financial reorganization, it is necessary to account for write-downs related to circumstances that existed prior to the financial reorganization. Any such losses are accounted for in the income statement for the period prior to the financial reorganization and the adoption of a "fresh start" basis of accounting.

.39 Consistent with the treatment of a financial reorganization as a "fresh start", retained earnings accumulate from the date of the financial reorganization. Retained earnings that arose prior to the financial reorganization are reclassified, along with other shareholders' equity accounts that are not specifically related to capital invested (such as exchange gains and losses arising from the translation of the financial statements of a self-sustaining foreign operation) and that arose prior to the financial reorganization, to either share capital, contributed surplus, or a separately identified account within shareholders' equity.

.40 Since the comprehensive revaluation of assets and liabilities as a result of a financial reorganization reflects a "fresh start" for the reporting enterprise, the revaluation adjustment, along with direct costs incurred in effecting the reorganization, is accounted for as a capital transaction and is recorded as either share capital, contributed surplus, or a separately identified account within shareholders' equity.

.41 When there is a negative balance in shareholders' equity after the comprehensive revaluation, share capital is disclosed at a nominal value and the balance is disclosed as a capital deficiency resulting from the financial reorganization.

.42 Generally, prior period figures are not included in the financial statements of an enterprise that has comprehensively revalued its assets and liabilities as a result of a financial reorganization. This is consistent with the concept that the enterprise is starting anew using a "fresh start" basis of accounting. When figures prior to the comprehensive revaluation are provided, for statutory or other purposes, financial information for the periods before and after the reorganization would be segregated on a columnar basis.

INCOME TAX BENEFITS

.43 *When the future income taxes method is used, a future income tax asset that arose prior to the date of a comprehensive revaluation and that was not recognized in the comprehensive revaluation is subsequently recognized, the benefit shall be recognized:*

(a) *in net income if the comprehensive revaluation related to push-down accounting; or*

(b) *in accordance with INCOME TAXES, paragraph* 3465.50*, if the comprehensive revaluation was due to a financial reorganization.*

.44 Under the future income taxes method, future income tax assets are appropriately recognized as part of a comprehensive revaluation to the extent that they are more likely than not to be realized (see INCOME TAXES, Section 3465). Future income tax assets that are not considered to be more likely than not to be realized at the time of the comprehensive revaluation would be excluded from the revaluation. If such an unrecognized future income tax asset were recognized subsequent to:

(a) the application of push-down accounting, the benefit would be recognized in net income (or, if INCOME TAXES, Section 3465, so requires, outside net income; or

(b) a comprehensive revaluation resulting from a financial reorganization, the benefit would be recognized in a manner consistent with the revaluation adjustment recorded at the time of the financial reorganization.

DISCLOSURE

Acquisition of an enterprise — push-down accounting

.45 *In the period that push-down accounting has been first applied, the financial statements shall disclose the following:*

(a) *the date push-down accounting was applied, and the date or dates of the purchase transaction or transactions that led to the application of push-down accounting;*

(b) *a description of the situation resulting in the application of push-down accounting; and*

(c) *the amount of the change in each major class of assets, liabilities and shareholders' equity arising from the application of push-down accounting.*

.46 *In the fiscal period that push-down accounting has been applied, and the following fiscal period the financial statements shall disclose:*

(a) *the date push-down accounting was applied;*

(b) *the amount of the revaluation adjustment and the shareholders' equity account in which the revaluation adjustment was recorded; and*

(c) *the amount of retained earnings reclassified and the shareholders' equity account to which it was reclassified.*

Financial reorganization

.47 *When an enterprise's assets and liabilities have been comprehensively revalued as a result of a financial reorganization, the financial statements for the period in which the financial reorganization took place shall disclose the following:*

(a) *the date of the financial reorganization;*

(b) *a description of the financial reorganization; and*

(c) *the amount of the change in each major class of assets, liabilities and shareholders' equity resulting from the financial reorganization.*

.48 *In the fiscal period a financial reorganization has been undertaken, and the following fiscal period, the financial statements shall disclose:*

(a) *the date of the financial reorganization;*

(b) *the amount of the revaluation adjustment and the shareholders' equity account in which the revaluation adjustment was recorded; and*

(c) *the amount of retained earnings reclassified and the shareholders' equity account to which it was reclassified.*

EFFECTIVE DATE AND TRANSITION

.49 Except as specified in paragraph 1625.50, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.

.50 Amendments to paragraphs 1625.02, 1625.11, 1625.17(d) and 1625.21, issued in September 2014, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2016. Earlier application is permitted.

ILLUSTRATIVE EXAMPLES

This material is illustrative only.

These examples illustrate how the accounting treatment specified in this Section might be applied in particular situations. Matters of principle relating to particular situations should be decided in the context of this Section.

Example 1 — Application of push-down accounting

Example 2 — Financial reorganization

Example 1 — Application of push-down accounting

Disclosure required in 20X1

On January 1, 20X1 Y Company purchased 60 percent of the common shares of X Company (the Company) that, combined with their 40 percent interest purchased in 20X0, gave Y Company 100 percent of the common shares of the Company. The Company's financial statements have been prepared to reflect the purchase price adjustments arising from these transactions. The effect of these adjustments on each of the Company's major class of assets, liabilities and shareholders' equity accounts are as follows:

($ thousands)	January 1, 20X1 before push-down adjustment	Push-down adjustment		January 1, 20X1 after push-down adjustment
ASSETS				
Cash	$10,000	$ —		$10,000
Accounts receivable	2,000	(200)	(a)	1,800
Inventory	1,000	500	(a)	1,500
Capital assets	25,000	24,700	(a)	49,700
Total assets	$38,000	$25,000		$63,000
	======	======		======
LIABILITIES AND SHAREHOLDERS' EQUITY				
Accounts payable	$2,000	$ —		$2,000
Bank loan	10,000	—		10,000
Future income taxes (b)	7,000	10,000		17,000
Common shares	5,000	—		5,000

Contributed surplus	5,000	8,900	(c)	—
	—	15,000	(a)	28,900
Retained earnings	9,000	(8,900)	(c)	100
Total liabilities and shareholders' equity	$38,000	$25,000		$63,000
	======	======		======

(a) The revaluation adjustment arising from the application of push-down accounting based on cost of 20X0 and 20X1 purchases is classified to contributed surplus.

(b) Each company's tax rate is 40 percent and the tax bases of the Company's assets and liabilities do not change as a result of the business combination or the application of push-down accounting.

(c) Reclassification of retained earnings on application of push-down accounting. The balance in retained earnings on January 1, 20X1 after the push-down adjustment represents Y Company's portion of retained earnings on an equity basis, prior to the application of push-down accounting.

Disclosure required in 20X2

On January 1, 20X1 the Company's assets and liabilities were comprehensively revalued as the result of applying push-down accounting. The revaluation adjustment of $15,000,000 and $8,900,000 of retained earnings (representing that portion of retained earnings that does not relate to any continuing interest in the entity) were classified as contributed surplus.

Example 2 — Financial reorganization

Disclosure required in 20X1

On January 1, 20X1 the Company's debt and equity holders approved a financial reorganization because of the Company's inability to meet interest payments on the debentures. The financial reorganization was accomplished by:

— Holders of $5,000,000 debentures exchanging their debentures for 1,600,000 common shares of the company; and

— Preferred shareholders giving up their rights to cumulative, unpaid, undeclared dividends of $200,000.

The Company's assets and liabilities have been adjusted to reflect the values established during the financial reorganization. The deficit has been reclassified to share capital and the Company commenced accounting as of the date after the financial reorganization on a "fresh start" basis. The effect of the financial reorganization on the balance sheet accounts is as follows:

($ thousands)	January 1, 20X1 prior to financial reorganization	Adjustment to reflect write-downs before reorganization	Reorganization adjustments		January 1, 20X1 after financial reorganization
ASSETS					
Current assets	$ 500	$ (100)	$300	(a)	$ 700
Property, plant and equipment	2,600	—	(400)	(a)	2,200
Trademarks	—	—	200	(a)	200
Goodwill	1,000	(1,000)	—		—
Total assets	$4,100	$(1,100)	$100		$3,100
	=====	======	====		=====
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities	$2,100	$ —	—		$2,100
Debentures	5,000	—	$(5,000)	(a)	—
Future income taxes (b)	400	(40)	40		400
500,000 Preferred shares	500	—	—		500
Common shares:					
Previously issued — 100,000	5,000	—	—		—

Issued on financial reorganization	—	—	(9,960)	(c)	—
— 1,600,000	—	—	5,060	(a)	100
Deficit	(8,900)	(1,060)	9,960	(c)	—
Total liabilities and shareholders' equity	$4,100	$(1,100)	$ 100		$3,100
	=====	======	====		=====

(a) The revaluation adjustment to reflect new costs established in the financial reorganization is classified to common shares.

(b) The Company's tax rate is 40 percent and the tax bases of the Company's assets and liabilities do not change as a result of the write-downs or of the financial reorganization. The goodwill written off prior to the financial reorganization was not deductible for tax purposes. The Company has no tax loss carryforwards.

(c) Reclassification of deficit to share capital to reflect "fresh start" accounting as of the date of the financial reorganization.

Disclosure required in 20X2

On January 1, 20X1 the Company's assets and liabilities were comprehensively revalued as the result of a financial reorganization. The revaluation adjustment of $5,060,000 and the $9,960,000 deficit were classified as common shares.