

CICA handbook – accounting revisions release no. 53 January 2009

ACCOUNTING STANDARDS

Business combinations, Section 1581

This Section has been re-filed under Superseded Accounting Recommendations and a Supplement added setting out the previous wording of paragraphs in other Handbook material that has been amended substantially as a consequence of approving new Section 1582.

The following italicized paragraphs formerly appeared in Section 1581:

- .09 ♦ *The purchase method of accounting should be used to account for all business combinations. [JULY 2001]*
- .11 ♦ *The acquirer in a business combination should recognize the assets acquired and liabilities assumed from the date of acquisition, including any assets and liabilities that may not have been recognized on the balance sheet of the acquired enterprise. [JULY 2001]*
- .12 ♦ *The financial statements of the acquirer for the period in which a business combination occurs should include the earnings and cash flows of the acquired enterprise from the date of acquisition only. [JULY 2001]*
- .21 ♦ *Assets acquired and liabilities assumed in a business combination should be measured initially based on the cost of the purchase to the acquirer, determined as of the date of acquisition. [JULY 2001]*
- .22 ♦ *The cost of the purchase to the acquirer should be determined by the fair value of the consideration given or the acquirer's share of the fair value of the net assets or equity interests acquired, whichever is more reliably measurable. [JAN. 2006]*
- .27 ♦ *The cost of the purchase includes the direct costs of the business combination. Costs of registering and issuing shares issued to effect a business combination should be treated as a capital transaction (see CAPITAL TRANSACTIONS, Section 3610). Indirect and general expenses related to business combinations should be recognized as expenses when incurred. [JULY 2001]*
- .29 ♦ *When the amount of any contingent consideration can be reasonably estimated at the date of acquisition and the outcome of the contingency can be determined beyond reasonable doubt, the contingent consideration should be recognized at that date as part of the cost of the purchase. When the amount of contingent consideration cannot be reasonably estimated or the outcome of the contingency cannot be determined without reasonable doubt, details of the contingency should be disclosed. Neither a liability nor outstanding equity instruments are recognized until the contingency is resolved and consideration is issued or becomes issuable. [JULY 2001]*
- .31 ♦ *When additional consideration is contingent on maintaining or achieving specified earnings levels in future periods, the acquirer should recognize the current fair value of the consideration issued or issuable as an additional cost of the purchase when the contingency is resolved and the additional consideration is issued or becomes issuable. (Paragraph 1581.52 addresses the accounting for contingent consideration in a business combination when the fair value of the net assets acquired exceeds the cost of the acquired enterprise.) [JULY 2001]*
- .32 ♦ *Any consideration that will be payable if the market price of the shares issued to effect the combination does not reach at least a specified value by a specified future date should not change the amount recognized as the cost of the purchase. When additional consideration becomes payable, the current fair value of such consideration should be offset by a simultaneous reduction in the value placed on the shares issued at the date of acquisition to their lower current fair value. [JULY 2001]*
- .40 ♦ *The cost of the purchase should be allocated as follows:*
 - (a) *all assets acquired and liabilities assumed in a business combination, whether or not recognized in the financial statements of the acquired enterprise, except goodwill and future income taxes recognized by an acquired enterprise before its acquisition, should be assigned a portion of the total cost of the purchase based on their fair values at the date of acquisition; and*
 - (b) *the excess of the cost of the purchase over the net of the amounts assigned to assets acquired and liabilities assumed should be recognized as an asset referred to as goodwill. [JULY 2001]*
- .48 ♦ *An intangible asset should be recognized apart from goodwill when:*
 - (a) *the asset results from contractual or other legal rights (regardless of whether those rights are transferable or separable from the acquired enterprise or from other rights and obligations); or*

- (b) *the asset is capable of being separated or divided from the acquired enterprise and sold, transferred, licensed, rented, or exchanged (regardless of whether there is an intent to do so).*
- Otherwise, it should be included in the amount recognized as goodwill. [JULY 2001]
- .50 ♦ *When the net of the amounts assigned to assets acquired and liabilities assumed exceeds the cost of the purchase ("excess" — sometimes referred to as "negative goodwill"):*
 - (a) *the excess should be eliminated, to the extent possible, by allocating it as a pro rata reduction of the amounts that otherwise would be assigned to all of the acquired assets except:*
 - (i) *financial assets other than investments accounted for by the equity method;*
 - (ii) *assets to be disposed of by sale;*
 - (iii) *future income tax assets;*
 - (iv) *prepaid assets relating to employee future benefit plans; and*
 - (v) *any other current assets; and*
 - (b) *any remaining excess should be presented as an extraordinary gain. [JULY 2001*]*
- .52 ♦ *When a business combination involves a contingent consideration agreement that might result in recognition of an additional element of cost of the purchase on resolving the contingency, an amount equal to the lesser of the maximum amount of contingent consideration and the excess should be recognized as if it were a liability. When the contingency is resolved and the consideration is issued or becomes issuable, any excess of the fair value of the contingent consideration issued or issuable over the amount initially recognized should be recognized as an additional cost of the purchase. Any excess of the amount initially recognized as if it were a liability over the fair value of the contingent consideration issued or issuable should first be allocated as a pro rata reduction of the amounts assigned to assets acquired in accordance with paragraph 1581.50(a). Any amount that remains should be accounted for in accordance with paragraph 1581.50(b). [JULY 2001]*
- .55 ♦ *For each material business combination completed during the period, the combined enterprise should disclose the following:*
 - (a) *the name and a brief description of the acquired enterprise and, when shares are acquired, the percentage of voting shares acquired;*
 - (b) *the period for which the earnings of the acquired enterprise are included in the income statement of the combined enterprise;*
 - (c) *the cost of the purchase and, when applicable, the number of equity instruments issued or issuable, the value assigned to those equity instruments, and the basis for determining that value;*
 - (d) *a condensed balance sheet disclosing the amount assigned to each major class of asset and liability of the acquired enterprise at the date of acquisition;*
 - (e) *contingent payments, options, or commitments specified in the acquisition agreement and the accounting treatment that will be followed should any such contingency occur (see also ACCOUNTING GUIDELINE AcG-14, Disclosure of Guarantees); and*
 - (f) *for any purchase price allocation that has not been finalized, that fact and the reasons therefor and, in subsequent periods, the nature and amount of any material adjustments made to the initial allocation of the purchase price. [JULY 2001*]*
- .56 ♦ *When the amounts assigned to goodwill or intangible assets acquired are significant in relation to the total cost of the purchase, the combined enterprise should disclose the following:*
 - (a) *for intangible assets subject to amortization, the total amount assigned and the amount assigned to each major intangible asset class;*
 - (b) *for intangible assets not subject to amortization, the total amount assigned and the amount assigned to each major intangible asset class; and*
 - (c) *for goodwill:*
 - (i) *the total amount of goodwill and the amount that is expected to be deductible for tax purposes; and*
 - (ii) *for enterprises that are required to disclose segment information in accordance with SEGMENT DISCLOSURES, Section 1701, the amount of goodwill by reportable segment. [JULY 2001*]*
- .57 ♦ *When a series of individually immaterial business combinations are completed during the period that are material in the aggregate, the combined enterprise should disclose the following:*
 - (a) *the number of enterprises acquired and a brief description of those enterprises;*
 - (b) *the aggregate cost of the acquired enterprises, the number of equity instruments issued or issuable, and the value assigned to those equity instruments;*
 - (c) *the aggregate amount of any contingent payments, options or commitments and the accounting treatment that will be followed should any such contingency occur (when potentially significant in relation to the aggregate cost of the purchases); and*

- (d) *the information described in paragraph 1581.56, when the aggregate amount assigned to goodwill or to intangible assets acquired is significant in relation to the aggregate cost of the purchases.* [JULY 2001*]
- .59 ♦ *The information in paragraphs 1581.55-.56 should be disclosed, to the extent practical, for each material business combination completed after the balance sheet date but before the financial statements are completed.* [JULY 2001]
- Business combinations, Section 1582 [JAN. 2011]**
Replaces Section 1581. The new Section adopts relevant parts of International Financial Reporting Standard IFRS 3, "Business Combinations" (January 2008).
- Consolidated financial statements, Section 1600**
This Section has been re-filed under Superseded Accounting Recommendations.
The following italicized paragraphs formerly appeared in Section 1600:
- .13 ♦ *Where an investment in a subsidiary is acquired through two or more purchases, the parent company's interest in the subsidiary's identifiable assets and liabilities should be determined as follows:*
(a) *the assignable costs of the subsidiary's identifiable assets and liabilities should be determined as at each date on which an investment was acquired;*
(b) *the parent company's interest in the subsidiary's identifiable assets and liabilities acquired at each step in the purchase should be based on the assignable costs of all such assets and liabilities at that date.* [APRIL 1975]
- .15 ♦ *The non-controlling interest in the subsidiary's assets and liabilities should be reflected in terms of carrying values recorded in the accounting records of the subsidiary company.* [APRIL 1975]
- .17 ♦ *In the preparation of consolidated financial statements, the excess of the cost of the investment over the costs assigned to the parent's interest in the net identifiable assets of the subsidiary should be accounted for in accordance with the standards on goodwill in GOODWILL AND INTANGIBLE ASSETS, Section 3064.* [APRIL 1975*]
- .19 ♦ *Intercompany balances should be eliminated upon consolidation.* [APRIL 1975]
- .22 ♦ *The retained earnings or deficit of a subsidiary company at the date(s) of acquisition by the parent should not be included in consolidated retained earnings.* [APRIL 1975]
- .24 ♦ *Where the carrying value of the assets of the parent company or a subsidiary company include gains or losses arising from intercompany transactions which took place prior to the date of acquisition, such gains or losses should not be eliminated unless the transactions were made in contemplation of acquisition.* [APRIL 1975]
- .30 ♦ *Unrealized intercompany gains or losses arising subsequent to the date of an acquisition on assets remaining within the consolidated group should be eliminated. The amount of elimination from assets should not be affected by the existence of a non-controlling interest.* [APRIL 1975*]
- .32 ♦ *Where there is an unrealized intercompany gain or loss recognized by a subsidiary company in which there is a non-controlling interest, such gain or loss should be eliminated proportionately between the parent and non-controlling interest in that company's income.* [APRIL 1975*]
- .35 ♦ *The depreciation, depletion and amortization of the assets of a subsidiary company should be computed for the purposes of consolidated financial statements, on the basis of the amounts determined at the date of acquisition by the parent company.* [APRIL 1975]
- .37 ♦ *In consolidated financial statements prepared subsequent to the date of an acquisition, intercompany balances and post-acquisition transactions should be eliminated.* [APRIL 1975]
- .45 ♦ *When the parent company sells part of its holdings in a subsidiary to interests outside the consolidated group, any difference between the parent's underlying equity in the shares sold and the sale proceeds should enter into the determination of consolidated net income. The non-controlling interest is adjusted to its new proportionate interest in the subsidiary's net identifiable assets (measured in terms of the carrying values recorded by the subsidiary company, as adjusted for any intercompany eliminations). The value of net identifiable assets in the consolidated financial statements is adjusted to reflect the change in the interest of both the parent company and the non-controlling shareholders.* [APRIL 1975*]
- .47 ♦ *When a subsidiary company issues shares to interests outside the consolidated group, the effect of the change in the parent's interest as a result of the share issue should enter into the determination of consolidated net income. The non-controlling interest is adjusted to its new proportionate interest in the subsidiary's net identifiable assets (measured in terms of the carrying values recorded by the subsidiary company as adjusted for any intercompany transactions). The value of net identifiable assets in the consolidated financial statements is adjusted to reflect the change in the interest of both the parent company and the non-controlling shareholders.* [APRIL 1975*]
- .52 ♦ *A difference arising from the elimination of reciprocal shareholdings among companies in the consolidated group should be allocated to parent and non-controlling interests on the basis of their proportionate shareholdings.* [APRIL 1975*]
- .58 ♦ *Where losses applicable to the non-controlling interest in a subsidiary exceed the non-controlling interest in the common shares (as well as preferred shares whose right to participate in the earnings is not limited) of the subsidiary, the excess and any further losses applicable to the non-controlling interest should be allocated only to the parent's*

interest. Subsequent earnings should be allocated entirely to the parent's interest until such previously absorbed losses are recovered. [APRIL 1975]*

- .60 ♦ *Where non-controlling interest is represented by preferred shares with cumulative dividends in arrears, income of the subsidiary company should be allocated to such non-controlling interest to the extent that provision has not been made for such arrears. [APRIL 1975*]*
- .63 ♦ *When, for purposes of consolidation, it is not possible to use financial statements for a period which substantially coincides with that of the investor's financial statements, this fact, and the period covered by the financial statements used, should be disclosed. [APRIL 1975]*
- .64 ♦ *When the fiscal periods of a parent and a subsidiary, the investment in which is accounted for by the consolidation method, are not coterminous, events relating to, or transactions of, the subsidiary that have occurred during the intervening period and significantly affect the financial position or results of operations of the group should be recorded or disclosed, as appropriate. [AUG. 1978]*
- .67 ♦ *The non-controlling interest in the income or loss before discontinued operations and extraordinary items for the period should be disclosed separately in the consolidated income statement. Where there are discontinued operations or extraordinary items, the parent company's portion of such items should be disclosed. [JAN. 1990*]*
- .69 ♦ *Non-controlling interest in consolidated subsidiary companies should be shown separately from shareholders' equity. [APRIL 1975*]*
- .71 ♦ *Where a subsidiary company holds shares of the parent company, the issued share capital of the parent should be set out in full, with the cost of the shares held by the subsidiary shown as a deduction from shareholders' equity (see SHARE CAPITAL, Section 3240). [APRIL 1975]*

Consolidated financial statements, Section 1601 [JAN. 2011]

Together with Section 1602, replaces Section 1600.

Non-controlling interests, Section 1602 [JAN. 2011]

New.

Goodwill and intangible assets, paragraph 3064.08(g)

Amended the definition of goodwill as a result of issuing new Section 1582.

ACCOUNTING GUIDELINE

Consolidation of variable interest entities (AcG-15)

Amended paragraph C1 to explain that the definition of a business differs from that in new Section 1582.

Deleted paragraph C2 to remove guidance no longer applicable as a result of issuing new Section 1582.

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