ASPE 1625 *Comprehensive Revaluation of Assets and Liabilities*

Last updated: August 2015

SCOPE

- **Applies** to the comprehensive revaluation of assets and liabilities by profit-oriented entity to establish a new cost basis.
- **Does NOT apply to:**
  - Accounting by a joint arrangement for capital contributions to the joint arrangement.
  - Debt issuance based on asset appraisals.
  - Spin-off transaction to shareholder.
  - Change in operations or line of business.
  - Transactions in equity interests when an entity is a joint venture.

DEFINITIONS

- **Control** - the continuing power to determine an enterprise's strategic operating, investing and financing policies without the co-operation of others.
- **Financial reorganization** - substantial realignment of equity and non-equity interests such that holders of one or more of the significant classes of non-equity interests and holders of **all** of the significant classes of equity interests give up some (or all) of their rights and claims on the entity.
- **Push-down accounting**:
  - Attributes revised values to the assets and liabilities reported in an entity's financial statements (FS) based on purchase transaction(s) of its equity interests.
  - Results in acquirer's cost being assigned to the acquired entity's assets and liabilities.

	ACQUISITION OF AN ENTERPRISE	FINANCIAL REORGANZATION
Recognition	▪ **The following conditions are required:** • All/virtually all (> 90%) of equity interests have been acquired, in transaction(s) between non-related parties, by an acquirer who controls the entity after the transaction(s). • New costs are reasonably determinable. ▪ Establishes a new cost basis for continuing entity. ▪ Transactions between related parties are NOT an appropriate basis.	▪ **The following conditions are required:** • Entity has been subject to a financial reorganization, and the same party does not control the entity both before and after reorganization. • New costs are reasonably determinable. ▪ Creates a "new reporting entity" or a need for "fresh start" accounting. ▪ Holders of one or more significant classes of non-equity interests and holders of **all** significant classes of equity interests must participate in reorganization to justify a "fresh start".
Measurement	▪ Push-down accounting should be applied unless acquirer prefers to retain old cost basis financial statements. ▪ Values used are those resulting from accounting for the purchase transaction(s) as per ASPE 1582 *Business Combinations*. ▪ Acquired entity should NOT record the debt related to acquisition unless it's liability.	▪ New costs of identifiable assets and liabilities should: • Reflect the values established in the negotiation of claims among non-equity & equity interests, or estimated on a basis consistent with ASPE 1582. • NOT exceed the fair value of the entity as a whole, or new costs allocated to identifiable non-monetary assets reduced by excess based on their relative fair values at date of financial reorganization. ▪ No goodwill is recorded if fair value of entity as a whole exceeds revalued net assets.
Retained earnings & revaluation adjustment	▪ **Retained earnings**: reclassified to share capital, contributed surplus, **<u>OR</u>** a separately identified account within equity when: • For acquisition of enterprise (ASPE 1625.04(a)), portion of retained earnings 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. • For financial reorganization (ASPE 1625.04(b)), the retained earnings arose prior to reorganization. ▪ **Revaluation adjustment** (and direct costs incurred in effecting a financial reorganization): • Accounted for as a capital transaction as per ASPE 3610 *Capital Transactions*. • Recorded as share capital, contributed surplus, or a separately identified account within shareholders' equity.	
Income tax benefits *(future income taxes method)*	▪ Revaluation adjustments to specific classes of identifiable assets and liabilities are made without reference to their tax bases. • Tax effects of differences between revalued amounts and tax bases are recorded as future income tax (FIT) liabilities & assets. ▪ Benefit of any unused tax losses or income tax reductions meeting the recognition criteria in ASPE 3465 *Income Taxes* are recognized as FIT assets. ▪ FIT liabilities and assets recognized at time of financial reorganization are included with the new costs of the other identifiable assets and liabilities to determine the total revaluation adjustment amount. • FIT assets are recognized as part of comprehensive revaluation if more likely than not to be realized. ▪ If FIT assets that arose prior to date of comprehensive revaluation and not recognized in comprehensive revaluation are subsequently recognized, benefit is recognized: • In net income, if push-down accounting applied. • In accordance with ASPE 3465.50, if a financial reorganization occurred.	
Disclosure	▪ For guidance on presentation of prior period figures following a financial reorganization and disclosure requirements, refer to ASPE 1625.41 - .42 and .45 - .48.	