ASPE 1582 *Business Combinations*

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SCOPE

ASPE 1582 applies to a transaction or other event that meets the definition of a business combination.

This Section does not apply to:

- Formation of a joint arrangement.
- Acquisition of asset(s) that are not a business.
- Combination of entities or businesses under common control.

DEFINITIONS

Business: integrated set of activities and assets (inputs and processes) 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 (outputs).

Business combination: a transaction or other event in which an acquirer obtains control of one or more businesses. An acquirer might obtain control through: (a) transferring cash, cash equivalents or other assets; (b) incurring liabilities; (c) issuing equity interests; (d) providing more than one type of consideration; or (e) without transferring consideration, by contract alone.

Control: continuing power to determine the strategic operating, investing and financing policies without co-operation of others. Refer to ASPE 1590 *Subsidiaries* snapshot for details on assessing control.

AQUISITION METHOD - APPLY TO ALL BUSINESS COMBINATIONS

1. IDENTIFY ACQUIRER

Acquirer is the entity that:

- Obtains control per ASPE 1590/1591.
- If ASPE 1590/1591 guidance does not clearly indicate the acquirer, then consider:
  - Who transferred cash or other assets, or incurred liabilities.
  - Whose relative size (assets, revenues or profit) is significantly greater.
  - Who issued its equity interests except for a reverse acquisition.
    - Other considerations when exchanged equity interests: (a) relative voting rights in the combined entity after the business combination; (b) 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; (c) composition of the governing body of the combined entity; (d) composition of the senior management of the combined entity; (e) terms of the exchange of equity interests.

2. DETERMINE ACQUISITION DATE

Acquisition date:

- Date the acquirer obtains control of the acquiree.
- Generally, acquisition date is when acquirer legally transfers consideration, acquires the assets and assumes the liabilities (i.e., the closing date).
  - However, need to consider all facts and circumstances, including terms of contract/agreement.

3. RECOGNIZE AND MEASURE ASSETS ACQUIRED, LIABILITIES ASSUMED AND NCI IN THE ACQUIREE

Recognition:

- Recognize, separately from goodwill, all identifiable assets acquired, liabilities assumed and non-controlling interest (NCI) on the acquisition date.
- Exceptions include contingent liabilities, asset retirement obligations, income taxes, employee benefits, and indemnification assets.

Measurement:

- Measure all identifiable assets acquired and liabilities assumed at their acquisition-date fair values.
- Measure any NCI in the acquiree either at fair value or at the NCI's proportionate share of the acquiree's identifiable net assets.
- Provisional amounts reported if initial accounting for the business combination is incomplete at end of reporting period.
- Exceptions include reacquired rights, share-based payments and assets held for sale.

Measurement period:

- Ends as soon as the acquirer receives information it was seeking or learns that more information is not obtainable.
- Does not exceed one year from the acquisition date.

During the measurement period:

- Adjust provisional amounts retrospectively for new information obtained about facts and circumstances that existed and would have affected the measurement at the acquisition date.
- Recognize additional assets/liabilities if new information obtained would have resulted in recognition at the acquisition date.
- Adjust goodwill.

4. GOODWILL OR GAIN FROM BARGAIN PURCHASE

Recognize goodwill as of the acquisition date measured as the excess of (a) over (b) below:

(a) The aggregate of:
- Consideration transferred
- NCI
- If acquired in stages, acquisition-date fair value of previously held equity interest.

(b) Net identifiable assets and liabilities acquired/assumed.

If (b) > (a), recognize a gain on a bargain purchase in net income on the acquisition date.

Consideration transferred: the sum of the acquisition-date fair values of the assets transferred, liabilities incurred, equity interests issued, and contingent consideration payable to the acquiree.

Exclude:

- **Acquisition-related costs** - expensed in the periods in which the costs are incurred and the services are received except for costs to issue debt and equity securities, which shall be recognized in accordance with ASPE 3856 *Financial Instruments* and ASPE 3610 *Capital Transactions*, respectively.
- Amounts due to pre-existing relationships or separate transactions from the business combination.

Exception:

- Share-based payment awards exchanged (measured in accordance with ASPE 3870 *Stock-based Compensation and Other Stock-based Payments*).

This communication contains a general overview of the topic and is current as of August 14, 2015. The application of the principles addressed will depend upon the particular facts and circumstances of each individual case. Accordingly, this publication is not a substitute for professional advice and we recommend that any decisions you take about the application or not of any of the information presented be made in consultation with a qualified professional who can address any variance that may be required to reflect your circumstances. Please contact your local MNP representative for customized assistance with the application of this material. MNP LLP accepts no responsibility or liability for any loss related to any person's use of or reliance upon this material. © MNP LLP 2015. All rights reserved.

ADDITIONAL GUIDANCE FOR PARTICULAR TYPES OF BUSINESS COMBINATIONS

Reverse Acquisition

- In a reverse acquisition, entity that issues securities (the legal acquirer) is the accounting acquiree if meets the definition of a business.
- All recognition and measurement principles in ASPE 1582, including the requirement to recognize goodwill, apply.

Measurement of the consideration transferred:

- Accounting acquirer usually issues no consideration for acquiree; rather the accounting acquiree usually issues its equity shares to the owners of the accounting acquirer.
- Acquisition-date fair value of the consideration transferred by the accounting acquirer is based on the fair value of the number of equity interests the legal subsidiary would have had to issue to give the owners of the legal parent the same % equity interest in the combined entity that results from the reverse acquisition.

Preparation and presentation of consolidated financial statements:

- 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).
- Adjustment to consolidated financial statements: adjust the accounting acquirer's legal capital to reflect the legal capital of the accounting acquiree 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).
- Owners of legal acquiree (accounting acquirer) who didn't exchange their equity interests for those of legal parent (accounting acquiree) are treated as NCI following the reverse acquisition.
- As the consolidated financial statements represent continuation of financial statements of legal subsidiary (except for capital structure), they reflect all of the following:

  (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 ASPE 1582.

  (c) The retained earnings and other equity balances of the legal subsidiary (accounting acquirer) before the business combination.

  (d) The NCI proportionate share of the legal subsidiary's (accounting acquirer's) pre-combination carrying amounts of retained earnings and other equity interests.

  (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 ASPE 1582.

Step Acquisition

- An acquirer obtains control of an acquiree in which it held an equity interest immediately before the acquisition date.
- 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.

Business Combination Without Transfer of Consideration

An acquirer who obtains control of an acquiree without transferring consideration shall apply the acquisition method of accounting for a business combination. 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. Equity interests in acquiree held by parties other than acquirer represent NCI even if all equity interests in acquiree are attributed to NCI.

SUBSEQUENT MEASUREMENT AND ACCOUNTING, AND DISCLOSURE

- 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 applicable sections of ASPE except for (a) reacquired rights; (b) contingent liabilities recognized as of the acquisition date; (c) indemnification assets; and (d) contingent consideration. Refer to ASPE 1582.57- 60 for details.
- Refer to ASPE 1582.61 - .65 for disclosure requirements on business combinations.

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