ASPE AT A GLANCE

Section 1582 - Business Combinations

December 2014

Section 1582 - *Business Combinations*

Effective Date
Fiscal years beginning on or after January 1, 2011[1]

IDENTIFYING A BUSINESS COMBINATION / SCOPE

A business combination is:

- A transaction or event in which an acquirer obtains control of one or more businesses (e.g. acquisition of shares or net assets, mergers, reverse acquisitions).

Section 1582 does not apply to:

- Formation of a joint arrangement.
- A combination of entities or businesses under common control.
- Acquisition of an asset or group of assets that is not a business.

Definition of "Control"

- The continuing power to determine an entity's strategic operating, investing and financing policies without the co-operation of others.
- Refer to Section 1591, *Subsidiaries*, for factors to consider in determining if control exists.

Definition of a "Business"

- Integrated set of activities and assets.
- Capable of being conducted and managed to provide a return.
- Returns include dividends and cost savings.

Acquisition Costs

- Cannot be capitalized, must instead be expensed in the period they are incurred.
- Except for costs to issue equity which are recognized in accordance with Section 3610, *Capital Transactions*, and costs to issue debt which are recognized in accordance with Section 3856, *Financial Instruments*.

[1] Except as specified in paragraph 1582.66.

ACQUISITION METHOD

A business combination must be accounted for by applying the acquisition method.

STEP 1: IDENTIFY ACQUIRER

Section 1591, *Subsidiaries,* is used to identify the acquirer – the entity that obtains control of the acquiree.

STEP 2: DETERMINING THE ACQUISITION DATE

The date which the acquirer obtains control of the acquiree.

STEP 3: RECOGNITION AND MEASUREMENT OF ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS (NCI)

- As of the acquisition date, the acquirer recognizes, separately from goodwill:
  - The identifiable assets acquired;
  - The liabilities assumed; and
  - Any non-controlling interest (NCI) in the acquiree.
- The acquired assets and liabilities are required to be measured at their acquisition-date fair values.
- The acquired NCI in the acquiree is measured at its acquisition-date fair value.
- There are certain exceptions to the recognition and / or measurement principles which cover contingent liabilities, asset retirement obligations, income taxes, employee benefits, indemnification assets, reacquired rights, share-based payment awards and assets held for sale.

STEP 4: RECOGNITION AND MEASUREMENT OF GOODWILL OR A BARGAIN PURCHASE

- As of the acquisition date, the acquirer recognizes goodwill as the excess between:
  - The aggregate of the consideration transferred, any NCI in the acquiree and in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree; and
  - The identifiable net assets acquired.
- Goodwill can be grossed up to include the amounts attributable to NCI.
- A gain from a bargain purchase is immediately recognized in net income.
- The consideration transferred in a business combination (including any contingent consideration) is measured at fair value.

ADDITIONAL GUIDANCE FOR APPLYING THE ACQUISITION METHOD

STEP ACQUISITION

- An acquirer sometimes obtains control of an acquiree in which it held an equity interest immediately before the acquisition-date. This is known as a business combination achieved in stages or as a step acquisition.
- The acquirer remeasures its previously held equity interest in the acquiree at its acquisition-date fair value. Any resulting gain / loss is recognized in net income.

BUSINESS COMBINATION WITHOUT TRANSFER OF CONSIDERATION

- The acquisition method of accounting for a business combination also applies if no consideration is transferred.
- Such circumstances include:
  - The acquiree repurchases a sufficient number of its own shares for an existing investor (the acquirer) to obtain control.
  - Minority veto rights lapse that previously kept the acquirer from controlling an acquiree in which the acquirer held the majority voting rights.
  - The acquirer and the acquiree agree to combine their businesses by contract alone.

SUBSEQUENT MEASUREMENT AND ACCOUNTING

- In general, after the date of a business combination an acquirer measures and accounts for assets acquired, liabilities assumed or incurred and equity instruments issued in accordance with the applicable Sections of ASPE.
- However, Section 1582 includes accounting requirements for reacquired rights, contingent liabilities, indemnification assets and contingent consideration.

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