ASPE AT A GLANCE

Section 1625 - Comprehensive Revaluation of Assets and Liabilities

December 2014

Section 1625 - *Comprehensive Revaluation of Assets and Liabilities*

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

FINANCIAL REORGANIZATION

- A substantial realignment of the equity and non-equity interests of a 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.
- 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".
- 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.

PUSH-DOWN ACCOUNTING

- 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

- The following conditions are required to be satisfied for a enterprise's assets and liabilities to be comprehensively revalued:
  - all or virtually all (at least 90%) 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
  - 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.

ACQUISITION OF AN ENTERPRISE - PUSH-DOWN ACCOUNTING

- The values used in push-down accounting are those resulting from accounting for the purchase transaction or transactions in accordance with Section 1582, *Business Combinations.*
- 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 is reclassified to either share capital, contributed surplus, or a separately identified account within shareholders' equity.
- The revaluation adjustment is accounted for as a capital transaction (see Section 3610, *Capital Transactions*), and recorded as either share capital, contributed surplus, or a separately identified account within shareholders' equity.

FINANCIAL REORGANIZATION

- The new costs reflect the values established in the negotiation of claims among non-equity and equity interests and do not exceed the fair value of the enterprise as a whole, if known.
- If the financial reorganization does not establish values for identifiable individual assets and liabilities, values are estimated on a basis consistent with Section 1582.
- When the revalued net asset value exceeds the fair value of the enterprise as a whole, 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.
- Retained earnings that arose prior to the reorganization are reclassified to share capital, contributed surplus, or a separately identified account within shareholders' equity.
- The revaluation adjustment is accounted for as a capital transaction (see Section 3610, *Capital Transactions*) and recorded as share capital, contributed surplus, or a separately identified account within shareholders' equity.
- Expenses directly incurred in effecting a financial reorganization shall be accounted for as a capital transaction (see Section 3610).
- Write-downs related to circumstances that existed prior to the financial reorganization 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.
- 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.

[1] Except as specified in paragraph 1625.50.

INCOME TAX BENEFITS

- 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:
  - In net income if the comprehensive revaluation related to push-down accounting; or
  - In accordance with paragraph 50 of Section 3465, *Income Taxes,* if the comprehensive revaluation was due to a financial reorganization.
- 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 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:
  - The application of push-down accounting, the benefit would be recognized in net income or, if Section 3465 so requires, outside net income; or
  - 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.

PRESENTATION

- 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.
- 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.

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