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Accounting Standards for Private Enterprises (ASPE)

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Business combinations on a page

This publication is intended to provide readers with a summary of the main recognition, measurement, presentation and disclosure requirements for Section 1582 *Business Combinations* in the Accounting Standards for Private Enterprises (ASPE) in Part II of the CPA Canada Handbook—Accounting. Readers are always encouraged to refer to the specifics in the Handbook section before making any decisions.

For more information about this topic, please contact your Grant Thornton adviser. If you do not have an adviser, please contact us. We are happy to help.

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THE EIGHT STEP PROCESS:

Step 1: Determine if the transaction is a business combination

- **Business combination**: A transaction or other event in which an acquirer obtains control of one or more businesses.
- **Control**: The continuing power to determine an entity's strategic operating, investing and financing policies without the co-operation of others.
- **Business**: An integrated set of activities and assets that are 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. To meet the definition, the integrated set of activities and assets must include inputs and processes.

Section 1582 **does not** apply to: the formation of a joint venture; combinations between entities or businesses under common control; or the acquisition of an asset or group of assets and liabilities that does not meet the definition of a business.

Step 2: Identify the acquirer

- **Acquiree**: The business or businesses that the acquirer obtains control of in a business combination.
- **Acquirer**: The entity that obtains control of the acquiree.

1. Apply Section 1590 *Subsidiaries* first to determine which entity obtained control of the business(es) in the transaction.
2. If it is still not clear who obtained control, consider the additional factors provided in paragraphs 1582.A11 - .A14 (i.e., generally, the acquirer is the entity: that transfers the cash or other assets or incurs the liabilities; that issues its equity interests; whose relative size is significantly greater; or that initiated the combination).

NOTE: A newly formed entity created to effect a business combination is usually **not** the acquirer.

Step 3: Determine the acquisition date

- **Acquisition date**: The date on which the acquirer obtains control of the acquiree.

NOTE: The acquisition date for accounting purposes may be different than the date that control is legally obtained.

Step 4: Recognize and measure the identifiable assets acquired and liabilities assumed

At the acquisition date, the acquirer

- recognizes, separately from goodwill, the identifiable assets acquired and liabilities assumed ("recognition principle"); and
- measures the identifiable assets acquired and liabilities assumed at their acquisition date **fair values** ("measurement principle").

An intangible asset is identifiable if it is separable or arises from contractual or other legal rights.

NOTE: There are exceptions to the recognition and/or measurement principles for: contingencies, share-based payment awards, assets held-for-sale, reacquired rights, income taxes, employee benefits, asset retirement obligations and indemnification assets.

Step 5: Recognize and measure any non-controlling interest

For **each** business combination, the acquirer measures the non-controlling interest (NCI) in the acquiree at either

- the NCI's proportionate share of the acquiree's identifiable net assets, **or**
- the NCI's fair value.

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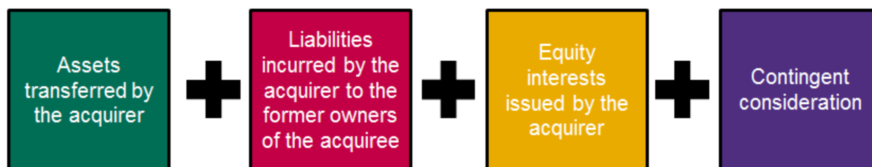
THE EIGHT STEP PROCESS:

Step 6: Determine the amount of consideration transferred

The consideration transferred in a business combination must be measured at its fair value on the acquisition date and must include only the assets transferred, liabilities incurred and equities issued to acquire control of the business(es) at the acquisition date. This amount also includes any contingent consideration. Consideration transferred is calculated as the sum of the fair value of any:



NOTE: Acquisition costs are expensed in the period in which they are incurred or the services are received, except for the costs to issue debt or equity securities which are recognized in accordance with Section 3856 *Financial Instruments* and Section 3610 *Capital Transactions*, respectively.

Step 7: Recognize and measure goodwill or a gain from a bargain purchase

- **Goodwill:** An asset representing the future economic benefits arising from other assets acquired in a business combination that is not individually identified and separately recognized.

If the calculation below yields

- a positive number → recognize goodwill
- a negative number → recognize a gain from a bargain purchase

Step 8: Determine the appropriate financial statement presentation and disclosure

Section 1582 *Business Combinations* outlines specific disclosures for

- each material business combination,
- individually immaterial business combinations that are collectively material, and
- business combinations that occur after the end of the reporting period but before the financial statements are completed.

ADDITIONAL GUIDANCE:

Business combinations achieved in stages

A "step acquisition" occurs when an acquirer obtains control of an acquiree in which it held an equity interest immediately prior to the acquisition date. In this case, the acquirer remeasures its previously held equity interest in the acquiree at its acquisition date fair value and recognizes the resulting gain or loss, if any, in net income.

Subsequent measurement and accounting

Subsequent to a business combination, the acquirer measures and accounts for the assets acquired, liabilities assumed or incurred, and equity instruments issued in accordance with the applicable sections of ASPE with the exception of contingencies, reacquired rights, indemnification assets and contingent consideration, which have specific guidance within Section 1582.

Acquisitions without a transfer of consideration

An acquirer may obtain control of an acquiree without transferring consideration. Business combination accounting still applies to those transactions.

Some situations in which an entity can obtain control without transferring consideration include:

- an acquiree repurchasing shares from its investors
- the lapse of minority veto rights
- combining entities agreeing to combine their businesses by contract alone.

Measurement period

During the measurement period, the acquirer may adjust the provisional amounts recognized for a business combination to reflect facts and circumstances that existed at the acquisition date. The measurement period **ends as soon as** the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date, or learns that more information is not obtainable. It **cannot** exceed one year from the acquisition date.

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