Institute of Chartered Accountants of New Zealand

FINANCIAL REPORTING STANDARD NO. 36
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ACCOUNTING FOR ACQUISITIONS RESULTING IN COMBINATIONS OF ENTITIES OR OPERATIONS

Issued by the Financial Reporting Standards Board of the Institute of Chartered Accountants of New Zealand

Approved on 09 October 2001 by the Accounting Standards Review Board under the Financial Reporting Act 1993

This Financial Reporting Standard is a regulation for the purposes of the Regulations (Disallowance) Act 1989

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This Financial Reporting Standard replaces parts of SSAP-8: Accounting for Business Combinations (1990). However, the corresponding parts of SSAP-8 will continue to apply to general purpose financial reports until an entity elects to comply with this Standard as permitted by the Financial Reporting Act 1993 section 27(7), or until this Standard takes effect, whichever is sooner.

This Financial Reporting Standard should be read in the context of the Explanatory Foreword to General Purpose Financial Reporting issued by the Council of the Institute of Chartered Accountants of New Zealand.

The Accounting Standards Review Board has approved FRS-36: Accounting for Acquisitions Resulting in Combinations of Entities or Operations, for the purposes of the Financial Reporting Act 1993, to apply to the following entities (as respectively defined in the Act): All reporting entities and groups, the Crown and all departments, Offices of Parliament and Crown entities, and all local authorities.

1 INTRODUCTION

COMMENTARY

1.1 This Standard deals with the accounting treatment and disclosure requirements concerning acquisitions of ownership interests in other entities or acquisitions of operations which result in combinations of entities or operations.

1.2 A combination of entities or operations may be established in a variety of ways. It may be established through the purchase of some or all of the net assets of another entity, or it may be established through the purchase of an ownership interest that achieves control over the net assets of another entity. The purchase consideration may involve the issue of shares or the transfer of cash, cash

equivalents or other assets. The purchase transaction may be between the entities involved in the combination or between one entity and the owners of the other entity. When the substance of the transaction is consistent with the definition in this Standard of a combination of entities or operations, the accounting and disclosure requirements contained in this Standard apply, irrespective of how the combination has been established and the form of the consideration.

1.3 When a combination of entities or operations has been established through the purchase of a controlling interest in the net assets of another entity, a parent-subsidiary relationship arises in which the investor is the parent and the investee is a subsidiary of the investor. In such circumstances, the investor is to apply the requirements of this Standard in its consolidated financial statements and include its interest in the investee in its own financial statements as an investment in a subsidiary.

1.4 When a combination of entities or operations has been established through the purchase of some or all of the individual assets, including any goodwill, and liabilities of another entity, a parent-subsidiary relationship will not arise. In such circumstances, the investor is to apply the requirements of this Standard in its own financial statements, and consequently in any consolidated financial statements prepared.

1.5 This Standard covers all transactions which result in a combination of entities or operations, other than those arising from intra-group reconstructions, whether described by the investor as an acquisition, a merger, an amalgamation, or as a uniting of the interests. In all cases, this Standard requires the resulting combination to be accounted for using the purchase method. Under the purchase method, a combination transaction is accounted for at the cost of acquisition which results in the recognition of the fair values of identifiable net assets, and of any goodwill or discount on acquisition, corresponding to the acquisition.

1.6 Financial reporting standards are paragraphs in bold type-face in this Standard. Where appropriate, interpretative commentary paragraphs in plain type-face follow the financial reporting standards.

2 APPLICATION

STANDARD

2.1 This Standard applies to the general purpose financial reports of all entities that have entered into an acquisition transaction resulting in a combination of entities or operations, except where the transaction arises from an intra-group reconstruction.

COMMENTARY

2.2 This Standard applies to the following general purpose financial statements of an investor that has acquired an operation of another entity or an ownership interest establishing control over another entity:

(a) the investor's consolidated financial statements; and

(b) the investor's own financial statements.

All references to financial statements in this Standard are to financial statements forming part of the relevant entity's general purpose financial report unless the specific context of the reference indicates otherwise.

2.3 The requirements of this Standard do not apply to intra-group reconstructions. Subject to there being no change in various categories of ownership interests, intra-group reconstructions are transfers of operations or ownership interests in entities that occur within an entity reporting where the resources controlled by the entity do not change as a result of the transfer. For a transfer to be an intra-group reconstruction in the case of any group entity reporting, the transfer is to occur wholly within that group, even if that group is itself a subgroup of a larger group for which consolidated financial statements are also prepared. The commentary paragraphs following the definition of "intra-group reconstruction" in paragraph 4.44 provide further discussion of the meaning of intra-group reconstruction and of circumstances in which intra-group reconstructions arise.

STANDARD

2.4 The financial reporting standards set out in this Standard apply to all financial reports where such application is of material consequence. A statement, fact, or item is material if it is of such a nature or amount that its disclosure, or the method of treating it, given full consideration of the circumstances applying at the time the financial report is completed, is likely to influence the users of the financial report in making decisions or assessments.

2.5 This Standard applies to general purpose financial reports covering periods ending on or after 31 December 2002.

3 STATEMENT OF PURPOSE

COMMENTARY

3.1 The purpose of this Financial Reporting Standard is to prescribe:

(a) the accounting treatment to be applied in respect of certain acquisitions that result in combinations of entities or operations, and

(b) the disclosures to be made regarding certain acquisitions that result in combinations of entities or operations in consolidated and other financial statements.

3.2 The underlying purpose of this Financial Reporting Standard is to ensure that the accounting treatment applied to an acquisition within the scope of this Standard reflects the economic substance of the exchange transaction that led to the acquisition. This is intended to result in consistent accounting treatments of acquisitions in financial statements.

3.3 For accounting to reflect economic substance:

(a) all of the identifiable assets and liabilities at the acquisition date, either of an operation acquired or of an entity in which a controlling ownership interest has been acquired, need to be recognised at their fair values to reflect their condition at that date; and

(b) all changes to these assets and liabilities, and the resulting gains and losses that arise after such acquisition, need to be recognised as part of the post-acquisition financial performance of the resulting combined entity.

4 DEFINITIONS

STANDARD

The following terms are used in this Standard with these meanings:

4.1 "Acquisition" means obtaining an asset, a group of assets, or net assets.

COMMENTARY

4.2 In the context of this Standard, an acquisition means obtaining another entity's operation, or obtaining an ownership interest in another entity. An acquisition of an ownership interest is not limited to an acquisition that gives rise to control over another entity. Acquisitions cover ownership interests of any level that have been obtained in another entity. Acquisitions of ownership interests that do not give rise to control over another entity become subject to the requirements of this Standard retrospectively when control has been established through a step acquisition.

STANDARD

4.3 "Acquisition date" is the date on which a transferee becomes entitled to the benefits associated with an asset, a group of assets, or net assets.

COMMENTARY

4.4 In the context of this Standard, acquisition date is the date on which another entity's operation, or an ownership interest in another entity, is transferred to an investor. This is the date on which there has been a transfer in substance and it is not necessarily the actual date identified in any formal sale agreement or other similar documentation.

4.5 The acquisition date with regard to an acquisition of an operation from another entity is the date on which control over the relevant assets and liabilities is transferred to the investor. This is the date from which the investor becomes entitled to the benefits and assumes the obligations associated with the assets and liabilities acquired. The relevant assets and liabilities are not deemed to have been transferred to the investor until all conditions necessary to protect the interests of the parties involved have been satisfied. However, this does not necessitate a transaction being closed or finalised at law before the assets and liabilities are transferred to the investor. In assessing whether the assets and liabilities have been transferred, the substance of the acquisition needs to be considered.

4.6 The acquisition date with regard to acquisition of an ownership interest in another entity is the date on which rights to that interest are transferred to the investor. The acquisition date of an ownership interest will have relevance whether or not the interest acquired gives rise to control over the other entity.

4.7 Although the acquisition date is the specific date on which the transfer of assets occurs, the parties may, for convenience, designate a date close to that date as the acquisition date; for example, the calendar month-end that is nearest to the specific transfer date. In such case, the cost of acquisition is to be adjusted for any imputed interest corresponding to the time difference between the designated acquisition date and the actual acquisition date, in accordance with the guidance in paragraph 4.19 of this Standard. However, a designated acquisition date may be treated as the actual acquisition date only where the fair values of the identifiable assets and liabilities at the designated acquisition date are not materially different to their values at the actual acquisition date.

4.8 The terms "pre-acquisition" and "post-acquisition" are to be understood in relation to the definition of acquisition date.

STANDARD

4.9 "Combination of entities or operations" is the grouping together of separate entities, or of operations of separate entities, into one reporting entity where the grouping is a consequence of either the acquisition of an ownership interest which establishes control over another entity or the acquisition of an operation.

COMMENTARY

4.10 A combination of entities or operations results from either:

(a) a combining of operations of separate entities, such as the acquisition of an operation that is not a separate legal entity (single reporting entity); or

(b) a combining of separate entities into a single reporting entity, such as the acquisition of a controlling ownership interest, or the net assets of another legal entity (creating a group).

STANDARD

4.11 "Consolidated financial statements" are the financial statements of the group presented without regard to the legal boundaries of the separate entities that are consolidated.

COMMENTARY

4.12 Consolidated financial statements include the assets, liabilities, revenues and expenses of the parent and its consolidated subsidiaries.

STANDARD

4.13 "Control" by one entity over another entity exists in circumstances where the following parts (a) and (b) are both satisfied:

(a) the first entity has the capacity to determine the financing and operating policies that guide the activities of the second entity, except in the following circumstances where such capacity is not required:
  - **(i) where such policies have been irreversibly predetermined by the first entity or its agent; or**
  - **(ii) where the determination of such policies is unable to materially impact the level of potential ownership benefits that arise from the activities of the second entity.**

(b) the first entity has an entitlement to a significant level of current or future ownership benefits, including the reduction of ownership losses, which arise from the activities of the second entity.

COMMENTARY

4.14 Commentary providing guidance on the identification of control with regard to the relationship between one entity and another is set out FRS-37: *Consolidating Investments in Subsidiaries*.

STANDARD

4.15 "Cost of acquisition" is the aggregate of the following amounts:

(a) the value of consideration attributable to the acquisition plus any directly attributable costs; and

(b) the fair value of the asset, group of assets, or net assets obtained as a result of the acquisition to the extent that they have been acquired through a donation or subsidy.

COMMENTARY

4.16 The definition of cost of acquisition in paragraph 4.15 consists of two components. Depending on the circumstances of the acquisition, the amount of the cost of acquisition will arise wholly from component (a) of the definition (consideration component), or wholly from component (b) of the definition

(donated or subsidised component), or from a mixture of both components (a) and (b). In effect, the cost of acquisition is the fair value of the acquisition irrespective of whether equal consideration has been provided by the acquiree. However, for the purposes of this Standard, the cost of acquisition is measured as the total of any consideration component and/or any donated or subsidised component.

4.17 Component (a) of the definition of cost of acquisition is the value of the consideration given plus any costs directly attributable to the acquisition. The value of consideration given comprises the amount of cash or cash equivalents paid and the fair value of any other consideration given by the investor. If the consideration is cash and/or securities, the value of the consideration given will be the amount of cash paid and/or the fair value of the securities issued. The fair value of the securities issued is the market price as at the date of acquisition, provided that undue fluctuations or a lack of depth and liquidity in the market do not make the market price an unreliable indicator. When the market price on one particular date is not a reliable indicator, various factors need to be taken into account, such as price movements for a reasonable period leading up to the date of acquisition, the market price at the time the consideration was determined, and the market price at the time of the announcement of the terms of the acquisition. When the market is unreliable or no quotation exists, the fair value of the securities issued by the investor might be estimated by reference to the fair value of the investor. Where this amount is not reliably determinable, the fair value of the securities issued by the investor might be estimated, in the case of the acquisition of an ownership interest, by reference to the proportion of the fair value of the investee attributable to the ownership interest acquired; and, in the case of the acquisition of an operation, the fair value of that operation. The value of the consideration given, therefore, is determined by its fair value or, if that is not clearly evident, the fair value of the property or rights acquired.

4.18 The guidance in paragraph 4.17 to determine the value of the consideration given is not exhaustive. For example, in the case of the acquisition of ownership interest, where consideration has been paid in cash to shareholders of the investee as an alternative to the issue of securities, this might also provide evidence of the total fair value given. All aspects of the acquisition, including significant factors influencing the negotiations, need to be considered, and independent valuations may be used as an aid in determining the fair value of securities issued.

4.19 Where the settlement date and acquisition date do not coincide, the consideration component of the cost of acquisition is the present value of the consideration at the acquisition date. Where settlement date is subsequent to acquisition date, the discount rate to be used is the rate at which the investor could borrow an amount equivalent to the consideration under similar terms and conditions. Where settlement date is prior to acquisition date, the discount rate to

be used is the rate the investor could obtain from investing an amount equivalent to the consideration at a similar level of risk.

4.20 An investor may incur incidental costs that are directly related to an acquisition. These include the costs of registering and issuing equity securities, and professional fees paid to chartered accountants, legal advisers, valuers and other consultants to effect the acquisition. Such costs are included as part of the consideration component of the cost of acquisition. General administrative costs, including the costs of maintaining an acquisitions department (or equivalent), and other costs which cannot be directly attributed to the particular acquisition being accounted for, are not included in the cost of acquisition but are recognised as an expense as incurred.

4.21 Where an acquisition results wholly or partly from a donation or subsidy, the cost of acquisition includes the donated or subsidised portion of the fair value of the acquisition. This ensures that the measurement and treatment of goodwill or discount on acquisition and the values assigned to the recognised identifiable assets and liabilities, in accordance with the requirements in section 5 of this Standard, produce information that is relevant.

4.22 The value of any donation or subsidy included in the cost of acquisition is recognised as revenue in the statement of financial performance.

4.23 For the purposes of the definition of cost of acquisition in paragraph 4.15, a donation or subsidy does not exist in an acquisition simply because the net fair value of identifiable assets and liabilities exceeds the purchase consideration. A donation or subsidy exists only when the transfer is being made for an amount of consideration that is less than that determinable between knowledgeable, willing parties on a commercial basis and when both parties know that an element of donation exists through a deliberate reduction in the amount of consideration that would otherwise be provided. Unless these factors are present in cases when the fair value of identifiable assets and liabilities exceeds the purchase consideration, the difference will not result from a donation or subsidy. It will instead result from a "bargain purchase" situation and is to be identified as a discount on acquisition and accounted for as such in accordance with section 5 of this Standard.

STANDARD

4.24 "Discount on acquisition" is the excess of the investor's share of the fair value of the recognised identifiable assets and liabilities over the cost of acquisition.

COMMENTARY

4.25 Discount on acquisition is sometimes referred to as negative goodwill.

STANDARD

4.26 "Entity" includes any legal, administrative, or fiduciary arrangement, organisational structure, or other party.

4.27 "Equity method" is the method of accounting whereby an investment in an investee is initially recognised at cost and is adjusted thereafter for post-acquisition changes in the investor's share of the net assets of the investee, with:

- **(a) the investor's share of the net surplus or deficit of the investee recognised in the investor's statement of financial performance; and**
- **(b) the investor's share of the total recognised revenues and expenses of the investee recognised in the investor's statement of movements in equity.**

STANDARD

4.28 "Fair value" is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

COMMENTARY

4.29 Other terms commonly used to describe fair value include "market value", "open market value" and "current market value".

4.30 Values determined in accordance with the definition of fair value in paragraph 4.28 are not affected by the investor's intentions for the future use of the identifiable assets and liabilities. In the case of an asset, the fair value is determined by reference to the asset's highest and best use; that is, the most probable use of the asset that is physically possible, appropriately justified, legally permissible, financially feasible, and which results in the highest value.

4.31 Where the fair value of an asset or liability is able to be determined by reference to the price in an active market for the same or a similar asset or liability, the fair value is determined using this information. Where the fair value is not able to be determined in this manner, the fair value is determined using other market-based evidence, such as by a discounted cash flow calculation using market estimates of the cash flows attributable to the asset or liability and a market-based discount rate. Where the fair value is not able to be reliably determined using market-based evidence, other approaches to the determination of fair value will be necessary, such as, in the case of some property, plant and equipment, depreciated replacement cost.

4.32 General guidelines for estimating the fair values of common identifiable assets and liabilities are as follows:

- (a) Marketable securities at their current market values.

(b) Non-marketable securities at estimated values that take into consideration features such as price-earnings ratios, dividend yields and expected growth rates of comparable securities of entities with similar characteristics.

(c) Receivables at the present values of the amounts to be received, determined at appropriate current interest rates, less allowances for uncollectibility and collection costs, if necessary.

(d) Inventories:

   (i) finished goods and merchandise at estimated selling prices, less the sum of:
      - costs of disposal, and
      - a reasonable profit allowance for the selling effort based on profit for similar finished goods and merchandise;

   (ii) work in progress at estimated selling prices of finished goods, less the sum of:
      - costs to complete,
      - costs of disposal, and
      - a reasonable profit allowance for the completing and selling effort based on profit for similar finished goods; and

   (iii) raw materials at current replacement costs.

(e) Property, plant and equipment at their fair value determined in accordance with the approach to determination of fair value set out in the financial reporting standard dealing with property, plant and equipment.

(f) Identifiable intangible assets, such as patent rights and licences, at fair value determined:

   (i) primarily by reference to an active market; and

   (ii) if no active market exists, by using the best information available of the amount that the entity would have paid for the asset in an arm's length transaction between knowledgeable willing parties. Fair value is estimated by discounting cash flows if, and only if, the asset can generate cash flows that are specifically attributable to it and that are largely independent of the cash flows from other assets, or groups of assets, used in the same revenue earning activity.

(g) Net employee benefit assets or obligations for defined benefit plans at the present value of the defined benefit obligation less the fair value of any plan assets. However, an asset may only be recognised to the extent that it is probable that it will be available to the entity in the form of refunds from the plan or a reduction in future contributions.

(h) Tax assets and liabilities at the amount of the tax benefit arising from tax losses or the taxes payable in respect of the net surplus or deficit, assessed from the perspective of the combined entity or group resulting from the acquisition. The tax asset or liability is determined after allowing for the tax effect of restating identifiable assets and liabilities to their fair values.

(i) Accounts and notes payable, long-term debt, liabilities, accruals and other

claims payable at present values of amounts to be disbursed in meeting the liability determined at appropriate current interest rates.

(j) Onerous contracts and other liabilities at present values of amounts to be disbursed in meeting the obligation, net of any amounts attributable to such contracts and liabilities that are expected to be recovered, determined at appropriate current interest rates.

(k) Provisions for terminating or reducing activities of the acquiree that are recognised under paragraph 5.11 at an amount determined under the financial reporting standard dealing with provisions.

STANDARD

4.33 "Goodwill" is the excess of the cost of acquisition over the investor's share of the fair value of the recognised identifiable assets and liabilities.

4.34 "Group" is an entity that comprises an investor and all of its subsidiaries.

4.35 "Identifiable assets and liabilities" consist of:

(a) the individual assets and liabilities that correspond to the acquisition, that are capable of being disposed of, or settled, individually; and

(b) planned amounts for terminating or reducing activities required to be recognised as a provision under paragraph 5.11.

COMMENTARY

4.36 In the context of this Standard, identifiable assets and liabilities can be either:

(a) the individual assets and liabilities that form part of the operation acquired or that belong to the entity in which an ownership interest has been acquired; and

(b) the individual liabilities for terminating or reducing activities required to be recognised under the conditions set out in paragraph 5.11.

4.37 In terms of paragraph 4.35(a), the identifiable assets and liabilities are limited to those assets and liabilities of the entity from which the operation has been acquired or of the entity in which an ownership interest has been acquired, that were in existence before the acquisition date. These identifiable assets and liabilities will be separately recognised on acquisition to the extent that they meet the relevant recognition criteria set out in the *Statement of Concepts for General Purpose Financial Reporting*.

4.38 In terms of paragraph 4.35(a), the identifiable assets and liabilities may include items that were not previously recognised in the financial statements of the entity from which the operation has been acquired or of the entity in which an

ownership interest has been acquired. The identifiable assets and liabilities include assets and liabilities that are not normally recognised in financial statements where no acquisition is involved, because other financial reporting standards preclude their immediate recognition.

4.39 Benefits arising from tax losses may be one example of an asset previously unrecognised by an investee that will be included in identifiable assets and liabilities in terms of paragraph 4.35(a) that are recognised on acquisition. The investee may not have been permitted to recognise such tax losses because it was not virtually certain whether the investee would have been able to realise these. However, as a result of an acquisition, it may be virtually certain these losses are able to be realised and therefore the tax benefit is able to be recognised.

4.40 Certain assets and liabilities that crystallise as a result of an acquisition that establishes a combination of entities or operations would also be recognised, provided that the underlying contingency was in existence before the acquisition was planned. An example is where an investee has previously entered into a contract that contains a clause under which obligations are triggered in the event of a change of ownership.

4.41 In terms of paragraph 4.35(a), the identifiable assets and liabilities may include items such as unfavourable contracts and commitments. With the exception of items to be included in provisions required to be recognised under paragraph 5.11, provisions for unfavourable contracts and commitments can be recognised as identifiable liabilities only if such commitments had been made before the acquisition.

4.42 Provisions for future losses or for reorganisation costs expected to be incurred as a result of the acquisition are not liabilities as at the acquisition date. For example, if the investor decides to close the head office of a newly obtained subsidiary as a measure to integrate the combined operations, this is a post-acquisition event unless the subsidiary was already committed to this course of action at the acquisition date. Therefore, unless the expected costs are required under paragraph 5.11 to be recognised at the date of acquisition, such provisions are excluded from identifiable assets and liabilities and are not to be taken into account in determining fair values of identifiable assets and liabilities of the subsidiary as at the acquisition date.

4.43 Where provisions for future costs were recognised in the financial statements of an investee shortly before the investee became a subsidiary of the investor, for example, during the course of negotiations with the investor, it is necessary to pay particular attention to the circumstances in which such provisions were recognised in order to determine whether obligations were incurred by the investee before the

acquisition which established control in favour of the investor. If obligations were incurred by the investee as a result of the influence of the investor, it would also be necessary to consider whether control of the investee had been yielded at an earlier date and, consequently, whether the corresponding acquisition date pre-dates such commitments.

STANDARD

4.44 "Intra-group reconstruction", in relation to an entity reporting, is:

(a) a transfer of ownership interest in an entity or transfer of an operation, where:
   - **(i) the transfer occurs wholly within the entity reporting; and**
   - **(ii) the transfer does not result in a change in either:**
     - **the ultimate ownership of the entity or operation that is being transferred; or**
     - **the relative interests in the ownership of the entity reporting.**

(b) a transfer of ownership interest in an entity or transfer of an operation, where:
   - **(i) the transfer does not occur wholly within the entity reporting but occurs wholly within an ultimate group which includes the entity reporting; and**
   - **(ii) the transfer does not result in a change in the net assets that are under the direct or indirect control of the entity reporting; and**
   - **(iii) the transfer does not result in a change in any of:**
     - **the ultimate ownership of the entity or operation that is being transferred;**
     - **the relative interests in the ownership of the entity reporting;**
     - **the relative interests in the ownership of the ultimate group which includes the entity reporting.**

(c) the complete replacement of the entity reporting or of a parent within the entity reporting, with a newly formed entity, or the interposing between a parent and its shareholder(s) or between a parent and its subsidiary, of a newly formed entity, in circumstances where there is no change in either:
     - **the relative interests in the ownership of the entity reporting; or**
     - **the relative interests in the ownership of the ultimate group which includes the entity reporting.**

COMMENTARY

4.45 Subject to there being no change in certain ownership interests, intra-group reconstructions are transfers of operations or ownership interests in entities that occur within an entity reporting where the resources controlled by the entity do not

change as a result of the transfer. Purchase accounting might not be appropriate for such transfers because the acquisition transactions occur within the entity and there have been no acquisitions by the entity from third parties. Accordingly, this Standard does not apply to such transfers, and therefore does not require the application of purchase accounting.

4.46 Where an entity reporting is a group, the definition of intra-group reconstruction is limited to a transfer occurring within the particular group of the investor that is preparing consolidated financial statements in accordance with this Standard. Therefore, for a transfer to be an intra-group reconstruction in the case of a particular group, the transfer must occur wholly within that group, even if that group is itself a subgroup of a larger group. As a consequence, where a transfer has been made within a larger group from one subgroup to another and the larger group and the recipient subgroup are both group entities reporting, the transfer may be an intra-group reconstruction in the case of the larger group but the transfer cannot be an intra-group reconstruction in the case of the recipient subgroup.

4.47 A transfer of ownership interest in an entity, or the transfer of an operation, between partly-owned subsidiaries is not an intra-group reconstruction unless the minority interest in each of the subsidiaries is identical.

4.48 Examples of intra-group reconstructions in the case of both a particular investor's own financial statements and the particular investor's consolidated financial statements include:

(a) a transfer of control of an entity or transfer of an operation between wholly-owned subsidiaries of the particular investor;

(b) a transfer of control of an entity or transfer of an operation between the particular investor and a wholly-owned subsidiary of that investor;

(c) the introduction of a new investor entity as the parent of the particular investor to report in place of the particular investor where the relative interests in the ultimate ownership of the particular investor's group are unchanged.

Appendix 3 considers the transfer of an ownership interest within a number of corporate structures to illustrate applications of the definition.

STANDARD

4.49 "Investee" is an entity in which an investor has an ownership interest.

4.50 "Investor" is an entity that has an ownership interest in the equity of another entity or that has acquired an operation.

COMMENTARY

4.51 For the purposes of accounting for acquisitions that result in combinations of entities, the investor is the entity that obtains control over the other entity involved

in the combination transaction. An entity that distributes cash or other assets or incurs liabilities to acquire an ownership interest in another entity and thereby obtain control over the entity is clearly the investor. The identities of the investor and the investee are usually evident in a combination of entities effected by the issuing of shares or other ownership securities. The investor normally issues the shares or other ownership securities and is often the larger entity. However, the facts and circumstances surrounding a combination of entities sometimes indicate that a smaller entity acquires a larger one. In addition, in some combinations of entities, the combined entity assumes the name of the investee or it is the investee that issues the shares or other ownership securities (commonly referred to as a reverse acquisition).

4.52 In determining which entity is the investor in a combination of entities, all pertinent facts are to be considered, particularly the relative voting rights in the combined entity after the combination, and the composition of the governing body and the senior management of the combined entity. In determining which of the owner groups retained or received the larger portion of the voting rights in the combined entity, the existence of any major voting blocks, unusual or special voting arrangements, and options, warrants, or convertible securities is to be considered.

4.53 If a new entity is formed to issue shares or other ownership securities to effect a combination of entities, one of the existing combining entities is to be considered the investor on the basis of the evidence available. The guidance in paragraphs 4.51 and 4.52 is to be used in making that determination.

STANDARD

4.54 "Minority interest" is the equity of a subsidiary other than that corresponding to the ownership interest of the investor.

COMMENTARY

4.55 Minority interest, in aggregate, is the equity of the group other than that which can be attributed to the ownership interest of the investor. It comprises residual interests in the total recognised revenues and expenses and net assets of one or more subsidiaries to the extent that the residual interests are attributable to entities other than the investor or the investor's other subsidiaries.

STANDARD

4.56 "Operation" is a group of assets, and liabilities if any, which have been previously managed in combination in the conduct of an activity involving a supply of goods or services for internal or external purposes.

COMMENTARY

4.57 An operation refers to an acquired group of net assets which have been previously managed together as a unit. For example, a collection of related receivables, inventory and payables that have been managed to provide ongoing transaction activity will constitute an operation. Commonly, an operation will be a business unit purchased by the investor. However, an operation may be a non-business group of net assets purchased to contribute towards the overall operation of the investor, whether the operation be profit making or not for profit making.

4.58 When a collection of items of property, plant and equipment is acquired that does not constitute an operation in terms of this Standard, FRS-3*: Accounting for Property, Plant and Equipment* requires the total cost to be allocated to individual items in proportion to their fair values. The distinction between an operation as defined under this Standard and a collection of items that falls within the scope of FRS-3 relates to the potential in an operation for the existence of goodwill or discount on acquisition that arises through the vendor's previous management of the collection of net assets in combination. There is no potential for the existence of goodwill or discount on acquisition of a collection of items that falls within the scope of FRS-3 because the nature of the acquisition is, simply, that several separate assets have been acquired as part of one transaction. Therefore, any difference between the total transaction cost and the aggregate of the fair values of the individual assets acquired in terms of FRS-3 relates to influences associated with transaction size or mix rather than benefits or savings attributable to a previous operation of the items as a unit.

STANDARD

4.59 "Ownership interest" is the percentage of the equity of an investee attributable to an investor, whether the equity is attributable to the investor directly, or indirectly through its subsidiaries.

COMMENTARY

4.60 Commentary providing guidance on the meaning of ownership interest is set out in FRS-37: *Consolidating Investments in Subsidiaries.*

STANDARD

4.61 "Subsidiary" is an entity that is controlled by another entity.

COMMENTARY

4.62 A subsidiary may be an entity of any form that is controlled by an investor. For example, a subsidiary includes any interest held by an investor in a partnership where the investor controls that partnership.

4.63 The term "controlled" in paragraph 4.61 is to be understood in relation to the definition of control in paragraph 4.13 of this Standard.

FINANCIAL REPORTING

Recognition on Acquisition of Identifiable Assets and Liabilities Acquired

STANDARD

5.1 An acquisition must be recognised at the cost of acquisition as at acquisition date.

5.2 Subject to meeting the relevant recognition criteria set out in the *Statement of Concepts for General Purpose Financial Reporting,* the identifiable assets and liabilities corresponding to an operation or ownership interest acquired that establishes a combination of entities or operations must be recognised separately, as at acquisition date, in the financial statements of the entity which reports the combination.

5.3 An acquisition that establishes a combination of entities or operations must be accounted for as at acquisition date as follows:

(a) subject to paragraphs 5.8 (fair values of identifiable intangible assets) and 5.29 (discount on acquisition), the recognised identifiable assets and liabilities must be recognised at their fair values as at acquisition date;

(b) any goodwill or discount on acquisition must be accounted for in accordance with paragraphs 5.13 or 5.29 as appropriate; and

(c) any minority interest must be recognised at the minority's proportion of the fair values as at acquisition date of the recognised identifiable assets and liabilities.

COMMENTARY

5.4 Acquisitions are recognised at the cost of acquisition in order to reflect the economic substance of those exchange transactions. Any difference between the cost of acquisition and the investor's interest in the net fair values of the recognised identifiable assets and liabilities will represent goodwill or discount on acquisition and is to be accounted for in accordance with paragraphs 5.13 or 5.29 as appropriate.

5.5 To the extent that the identifiable assets and liabilities do not satisfy the relevant recognition criteria set out in the *Statement of Concepts for General Purpose Financial Reporting,* there is a resultant impact on the amount of goodwill or discount on acquisition, because goodwill or discount on acquisition is determined as the residual cost of acquisition after subtracting the investor's share of the fair values of the identifiable assets and liabilities that have been recognised.

5.6 The identifiable assets and liabilities constituting an acquired operation will be separately recognised in the investor's own financial statements. The identifiable assets and liabilities of an entity in which a controlling ownership interest has been acquired, will be separately recognised in the investor's consolidated financial statements and an investment in a subsidiary will be recognised in the investor's own financial statements.

5.7 At the point an investor acquires an ownership interest which establishes control over a subsidiary, the subsidiary's recognised identifiable assets and liabilities are to be stated at their fair values, regardless of whether the investor has acquired all or only some of the equity. Consequently, as at the date the investor obtains control over the subsidiary, any minority interest will be stated at the minority's proportion of the fair values of the recognised identifiable assets and liabilities of the subsidiary at that point.

Limitation to Recognised Fair Values of Intangibles

STANDARD

5.8 Where the fair values of identifiable intangible assets that form part of the identifiable assets and liabilities cannot be measured by reference to an active market, the amount recognised for those intangible assets at the date of acquisition must be limited to an amount that does not create or increase discount on acquisition.

COMMENTARY

5.9 The position taken in this Standard is that, in the absence of an active market for an acquired identifiable intangible asset, any excess of the cost of acquisition over the fair values of the remaining recognised identifiable assets and liabilities limits the extent to which the fair value of the intangible asset can be deemed to be reliably measured for the purposes of recognition.

Recognition of Liabilities

STANDARD

5.10 Subject to paragraph 5.11, liabilities must not be recognised at the date of acquisition if they result from the acquirer's intentions or actions alone. Liabilities must also not be recognised for future losses and expenses or other costs expected to be incurred as a result of the acquisition, whether they relate to the investor, investee, or transferor of an operation.

5.11 At the date of acquisition that results in a combination of entities or operations, the investor must recognise a provision that was not a liability of the investee or transferor of an operation at that date if, and only if, the investor has:

(a) at, or before, the date of that acquisition, developed the main features of a plan that involves terminating or reducing the activities of the investee or operation and that relates to:
  - **(i) compensating employees of the investee or operation for termination of their employment;**
  - **(ii) closing facilities of the investee or operation;**
  - **(iii) eliminating product lines of the investee or operation; or**
  - **(iv) terminating contracts of the investee or operation that have become onerous because the investor has communicated to the other party at, or before, the date of that acquisition that the contract will be terminated;**

(b) by announcing the main features of the plan at, or before, the date of acquisition, raised a valid expectation in those affected by the plan that it will implement the plan; and

(c) by the earlier of three months after that date of acquisition or the date when the financial statements are approved, developed those main features into a detailed formal plan identifying at least:
  - **(i) the business or part of a business concerned;**
  - **(ii) the principal locations affected;**
  - **(iii) the location, function, and approximate number of employees who will be compensated for terminating their services;**
  - **(iv) the expenditures that will be undertaken; and**
  - **(v) when the plan will be implemented.**

Any provision recognised under this paragraph must cover only the costs of the items listed in (a)(i) to (iv) above.

COMMENTARY

5.12 The liabilities referred to in paragraph 5.10 are not liabilities of the investee or transferor of an operation at the date of the acquisition that resulted in a combination of entities or operations. Therefore they are not relevant in allocating the cost of acquisition. Nonetheless, this Standard contains one specific exception to this general principle. This exception applies if the investor has developed plans that relate to the acquired operation or business of the investee and an obligation comes into existence as a direct consequence of the acquisition that resulted in the combination. Because these plans are an integral part of the investor's plan for the acquisition, paragraph 5.11 requires an entity to recognise a provision for the resulting costs. For the purpose of this Standard, identifiable assets and liabilities include the provisions recognised in paragraph 5.11. Paragraph 5.11 lays down strict conditions designed to ensure that the plans were an integral part of the acquisition that resulted in a combination of entities or operations and that within a short time (the earlier of three months after the date of that acquisition or the date when the financial statements are approved) the investor has developed the plans in a way that requires the entity to recognise a restructuring provision under FRS-15: *Provisions, Contingent Liabilities and Contingent Assets*. This

Standard also requires an entity to reverse such a provision if the plan is not implemented in the manner expected (see paragraph 5.43) and to disclose information on such provisions (see paragraph 6.2 (f)).

Goodwill Arising on Acquisition

STANDARD

5.13 Goodwill must be recognised as an asset and carried at cost less any accumulated amortisation and any accumulated impairment losses.

5.14 Goodwill must be amortised on a systematic basis over its useful life. The period over which goodwill is to be amortised must not exceed twenty years from initial recognition.

5.15 The amortisation method used for goodwill must reflect the pattern in which the future economic benefits arising from goodwill are expected to be consumed. The straight-line method must be adopted unless another method can be demonstrated to be more appropriate in the circumstances.

5.16 The amortisation of goodwill for each period must be recognised as an expense.

COMMENTARY

5.17 With the passage of time, goodwill diminishes, reflecting the fact that its service potential is decreasing. In some cases, the value of goodwill may appear not to decrease over time. This is because the potential for economic benefits that was purchased initially is being progressively replaced by the potential for economic benefits resulting from subsequent enhancements of goodwill. In other words, the goodwill that was purchased is being replaced by internally generated goodwill. The goodwill being accounted for under this Standard is limited to the goodwill that was purchased. Therefore, it is appropriate that goodwill is amortised on a systematic basis over the best estimate of its useful life.

5.18 Many factors need to be considered in estimating the useful life of goodwill, including:

(a) the nature and foreseeable life of the acquired entity or operation;

(b) the stability and foreseeable life of the industry to which the goodwill relates;

(c) public information on the characteristics of goodwill in similar businesses or industries and typical lifecycles of similar businesses;

(d) the effects of product obsolescence, changes in demand and other economic factors on the acquired entity or operation;

(e) the service life expectancies of key individuals or groups of employees and whether the acquired entity or operation could be efficiently managed by another management team;

(f) the level of maintenance expenditure or of funding required to obtain the expected future economic benefits from the acquired entity or operation and the company's ability and intent to reach such a level;

(g) expected actions by competitors or potential competitors; and

(h) the period the acquired entity or operation is expected to be held and legal, regulatory or contractual provisions affecting the useful life.

5.19 Because goodwill represents, among other things, future economic benefits from synergy or assets that cannot be recognised separately, it is difficult to estimate its useful life. Estimates of useful life become less reliable as the length of the useful life increases. As a consequence, projections of the useful life of goodwill beyond twenty years are unlikely to be sufficiently reliable to justify a longer amortisation period and therefore goodwill is to be amortised over a maximum of twenty years from initial recognition. Because of the ongoing replacement of purchased goodwill by internally generated goodwill, the useful life of purchased goodwill will frequently be less than twenty years from initial recognition.

5.20 There will rarely, if ever, be persuasive evidence to support an amortisation method for goodwill other than the straight-line basis, especially if that other method results in a lower amount of accumulated amortisation than under the straight-line method. The amortisation method is applied consistently from period to period unless there is a change in the expected pattern of economic benefits from goodwill.

5.21 When accounting for an acquisition, there may be circumstances in which the goodwill does not reflect future economic benefits that are expected to flow to the investor. For example, since negotiating the purchase consideration, there may have been a decline in the expected future cash flows from the net identifiable assets acquired. A further example is the discovery that an error resulting from fraud existed in the financial statements of the investee or the transferor of an operation at the acquisition date. In these circumstances, goodwill is to be written down and an expense recognised immediately.

STANDARD

5.22 The amortisation period and the amortisation method must be reviewed at each reporting date. If the expected useful life of goodwill is significantly different from previous estimates, the amortisation period must be changed accordingly, subject to the changed amortisation period not extending beyond the maximum amortisation period specified in paragraph 5.14. If there has been a significant change in the expected pattern of economic benefits from goodwill, the method must be changed to reflect the changed pattern. Such changes must be accounted for as changes in accounting estimates by adjusting the amortisation charge for the current and future periods.

5.23 The unamortised balance of goodwill must be reviewed at each reporting date and to the extent that it is no longer probable of being recovered from the expected future economic benefits it must be recognised immediately as an expense.

COMMENTARY

5.24 An impairment in the value of goodwill may be caused by factors such as unfavourable economic trends, changes in the competitive situation, and legal, statutory or contractual proceedings. It may be evidenced by a reduction in the cash flows generated, or reasonably likely to be generated, by the activities of the investee or operation. In these circumstances, the carrying amount of goodwill is to be written down and an expense recognised.

STANDARD

5.25 An impairment loss recognised for goodwill must be reversed in a subsequent reporting period if, and only if:

(a) the impairment loss was caused by a specific external event of an exceptional nature that is not expected to recur; and

(b) subsequent external events have occurred that reverse the effect of that event.

COMMENTARY

5.26 Any subsequent increase in the recoverable amount of goodwill is likely to be an increase in internally generated goodwill unless the increase relates clearly to the reversal of the effect of a specific external event of an exceptional nature.

5.27 This Standard does not permit an impairment loss to be reversed for goodwill because of a change in estimates (for example, a change in the discount rate or in the amount and timing of future cash flows of the cash-generating unit to which goodwill relates).

5.28 A specific external event is an event that is outside of the control of the entity. Examples of external events of an exceptional nature include new regulations that significantly curtail the operating activities, or decrease the profitability, of the entity to which the goodwill relates. Such circumstances will be very rare.

Discount Arising on Acquisition

STANDARD

5.29 A discount on acquisition must be accounted for as follows:

(a) To the extent that the discount on acquisition does not exceed the fair values of recognised identifiable non-monetary assets, the fair values of

the recognised identifiable non-monetary assets must be reduced proportionately until the discount on acquisition is eliminated, and the non-monetary assets acquired must then be recognised at the reduced amounts.

(b) To the extent that the discount on acquisition is not eliminated under part (a) of this paragraph, that portion of the discount on acquisition must be recognised as revenue immediately.

COMMENTARY

5.30 The fair values of recognised identifiable non-monetary assets are to be reduced by the discount on acquisition to ensure that the acquisition is not recorded at more than its cost. The relevant portion(s) of discount on acquisition, spread over those assets, will be realised when the assets concerned are sold or as the future economic benefits embodied therein are consumed. In the case of current assets, such as inventory, the realisation process is completed as the inventory is sold. In the case of non-current assets, such as plant and equipment, the discount on acquisition is realised through lower depreciation charges over the useful life of the asset.

Adjustment to Cost of Acquisition

STANDARD

5.31 Where the amount of purchase consideration is contingent on one or more future events, the cost of acquisition must include a reasonable estimate of the fair value of amounts expected to be payable in the future. The cost of acquisition must be adjusted when revised estimates are made, with consequential corresponding adjustments continuing to be made to goodwill or discount on acquisition until the final amount is confirmed.

COMMENTARY

5.32 Acquisition agreements may allow for adjustments to be made to the purchase consideration in the light of one or more future events. For example, the adjustments may be contingent on a specified level of earnings being maintained or achieved in future periods or on the market price of the securities issued as part of the purchase consideration being maintained.

5.33 When initially accounting for an acquisition, it is usually possible to estimate the amount of any adjustment to the purchase consideration, even though some uncertainty exists, without impairing the reliability of the information. When the adjustment subsequently becomes probable and a reliable estimate can be made of the amount, the investor is to treat the additional consideration as an adjustment to the cost of acquisition, with a consequential effect on goodwill or discount on acquisition.

5.34 The requirement in paragraph 5.31 to adjust the cost of acquisition is limited to circumstances where the contingent future event (events) relates (relate) to a position expected or contemplated by the parties in terms of the performance of the entity or operation acquired subsequent to its acquisition. The requirement does not apply to circumstances where the contingency is principally of a speculative nature or is not related to the future performance of the entity or operation. For example, a pre-agreed variation to the amount of purchase consideration as a consequence of actual sales levels falling below a certain amount following acquisition will normally require adjustment in terms of paragraph 5.31. In contrast, an adjustment in terms of paragraph 5.31 will not be made where there is a pre-agreed variation to the amount of purchase consideration as a consequence of a subsequent fall in market interest rates. A fall in market interest rates is an event that is both speculative and unrelated to the subsequent performance of the entity or operation. An adjustment to the amount of purchase consideration that is not made in terms of paragraph 5.31 will be treated as a revenue or expense as appropriate in the period the contingency is removed.

5.35 Acquisition agreements may require payments to be made in various forms. For example, in the case of the acquisition of an ownership interest, there may be non-competition payments or bonuses to the vendors who continue to work for the investee or operation. In such circumstances, it is necessary to determine whether the substance of the agreement is a payment for the operation acquired, or an expense such as compensation for services or profit sharing. In the first case the expected payments would be accounted for as a contingent purchase consideration; in the other case the payments would be treated as expenses of the period in which they relate.

Subsequent Determination or Changes in Value of Identifiable Assets and Liabilities

STANDARD

5.36 Identifiable assets and liabilities which do not satisfy the relevant criteria for separate recognition when the acquisition is initially accounted for must be recognised subsequently if and when they satisfy the criteria. The carrying amounts of recognised identifiable assets and liabilities must be adjusted if and when, subsequent to acquisition, additional evidence becomes available to assist with the estimation of the amounts assigned to those identifiable assets and liabilities when the acquisition was initially accounted for. The amount assigned to goodwill or discount on acquisition must also be adjusted, when necessary, to the extent that:

(a) the adjustment does not increase the carrying amount of goodwill above its recoverable amount; and

(b) such adjustment is made by the end of the first annual accounting period commencing after acquisition (except for the recognition of an

identifiable liability under paragraph 5.11, for which the time frame in paragraph 5.11(c) applies);

otherwise the adjustments to the identifiable assets and liabilities must be recognised as revenues or expenses.

COMMENTARY

5.37 The requirement for subsequent recognition of previously unrecognised identifiable assets and liabilities and for subsequent adjustment to the fair values assigned to the identifiable assets and liabilities, relates only to circumstances where such assets or liabilities would have been recognised, or recognised at different values, at acquisition if information now held had been held at acquisition. Subsequent recognition of, or changes in fair values assigned to, identifiable assets and liabilities is not permitted as a result of new events or circumstances which have changed the nature, or the corresponding value, of the identifiable assets and liabilities from their state at acquisition. Subsequent recognition or adjustment is therefore limited to circumstances equivalent to those that establish an adjustable event FRS-5: *Events After Balance Date*.

5.38 Identifiable assets and liabilities of an investee or operation may not have been recognised at the time of acquisition because they did not meet the recognition criteria at that time or the investor was unaware of their existence. Similarly, the fair values assigned at the date of acquisition to the identifiable assets and liabilities may need to be adjusted as additional evidence becomes available to assist with the estimation of the value of the relevant asset or liability at the date of acquisition. When the identifiable assets or liabilities are recognised or the carrying amounts are adjusted after the end of the first annual accounting period commencing after acquisition, revenue or expense is recognised rather than an adjustment to goodwill or discount on acquisition. This time limit, while arbitrary in its length, prevents goodwill and discount on acquisition from being reassessed and adjusted indefinitely.

5.39 Under paragraph 5.36, the carrying amount of goodwill (or discount on acquisition) is adjusted if, for example, there is an impairment loss before the end of the first annual accounting period commencing after acquisition for an identifiable asset acquired, and the impairment loss does not relate to specific events or changes in circumstances occurring after the date of acquisition.

5.40 When, subsequent to acquisition but prior to the end of the first annual accounting period commencing after acquisition, the investor becomes aware of the existence of a liability which had existed at the date of acquisition or of an impairment loss that does not relate to specific events or changes in circumstances occurring after the date of acquisition, goodwill is not increased above its recoverable amount.

5.41 An adjustment to the carrying amount of identifiable assets and liabilities made in accordance with paragraph 5.36 is to be calculated as if the adjusted fair values had been applied from the date of acquisition. As a result, the adjustment is to include both the effect of the change to the fair values initially assigned and the effect of depreciation and other changes which would have resulted if the adjusted fair values had been applied from the date of acquisition.

5.42 If the adjustment to identifiable assets and liabilities is made by the end of the first annual accounting period commencing after acquisition, the previously determined carrying amount of goodwill or previously allocated amount of discount on acquisition should also be adjusted, when necessary, to the amount which would have been determined if the adjusted fair values had been available at the date of acquisition. As a result, goodwill amortisation or depreciation/amortisation of identifiable non-monetary assets is also adjusted from the date of acquisition. However, an adjustment to the carrying amount of goodwill should be made only to the extent that it does not increase the carrying amount of goodwill above its recoverable amount.

STANDARD

5.43 If provisions for terminating or reducing activities of the investee or operation acquired were recognised in accordance with paragraph 5.11, these provisions must be reversed if, and only if:

(a) the outflow of economic benefits is no longer probable; or

(b) the detailed formal plan is not implemented:

- **(i) in the manner set out in the detailed formal plan; or**
- **(ii) within the time established in the detailed formal plan.**

Such a reversal must be reflected as an adjustment to goodwill or discount on acquisition (and minority interests, if appropriate), so that no revenue or expense is recognised in respect of it. The adjusted amount of goodwill must be amortised prospectively over its remaining useful life. The adjusted amount of discount on acquisition must be dealt with in accordance with paragraph 5.29(a) and (b).

COMMENTARY

5.44 No subsequent adjustment is normally necessary in respect of provisions recognised under paragraph 5.11, as the detailed formal plan is required to identify the expenditures that will be undertaken. However, if the expenditures have not occurred in the expected period, or are no longer expected to occur, it is necessary to adjust the provision for terminating or reducing activities of the investee or operation, with a corresponding adjustment to the amount of goodwill or discount on acquisition (and minority interests, if appropriate). If, subsequently, there is any obligation that is required to be recognised under FRS-15: *Provisions, Contingent Liabilities and Contingent Assets*, the entity recognises a corresponding expense.

Distributions from Pre-acquisition Surpluses

STANDARD

5.45 A distribution received from a subsidiary must be accounted for in the investor's own financial statements as a reduction in the cost of acquisition to the extent that the distribution is from pre-acquisition equity of the subsidiary.

COMMENTARY

5.46 A distribution from pre-acquisition equity may arise when an investor purchases a shareholding interest that establishes control and the relevant shares carry an entitlement to a dividend at that point, i.e. the shares are "cum div". When the dividend is subsequently distributed by the subsidiary, the investor is to recognise its share of the dividend as a reduction in the cost of acquisition rather than as revenue. Goodwill or discount on acquisition remains unchanged as there is a corresponding reduction in the investor's share of the investee's net assets at acquisition date.

5.47 Pre-acquisition equity of the subsidiary refers to the contributed equity and reserves of the subsidiary existing at the acquisition date. This includes any revaluation increment to be included in the consolidated financial statements relating to acquired net assets of the subsidiary at acquisition date, regardless of whether the revaluation increment has been recognised in the subsidiary's own financial statements. Distributions are normally regarded as being from post-acquisition equity to the extent that the distribution does not exceed any increase in the amount of equity, other than contributed capital, of the subsidiary between the acquisition date and the distribution date.

Control Established through a Step-Acquisition of Ownership Interest

STANDARD

5.48 When an investee becomes a subsidiary subsequent to initial acquisition of an ownership interest:

(a) the identifiable assets and liabilities of the subsidiary must be recognised at their fair values on the date the investee becomes a subsidiary;

(b) goodwill or discount on acquisition must be calculated as the sum of goodwill or discount on acquisition arising from each acquisition of an ownership interest. The goodwill recognised must include the amounts of goodwill from previous acquisitions that have not been actually or notionally amortised. Any discount on acquisition arising must be accounted for in the same manner as discount on acquisition arising on a single step acquisition of a subsidiary;

(c) the investor's share of any difference in fair values of the identifiable assets and liabilities between the date the previous ownership interest was acquired and the date the investee becomes a subsidiary must be

recognised to the extent that this difference is attributable to the interest previously held by the investor; and

(d) the investor's share of any difference in fair values of the identifiable assets and liabilities recognised in accordance with (c) must be recognised in either the statement of financial performance or the statement of movements in equity according to the nature of the change in fair values.

COMMENTARY

5.49 An investee may become a subsidiary, subsequent to the initial acquisition of an ownership interest by an investor, through a step-acquisition. When a step-acquisition occurs, the amount of goodwill or discount on acquisition is to be determined separately for each individual acquisition of an ownership interest, based on the fair values of the identifiable assets and liabilities at each point. This requires a step-by-step comparison to be made of the cost of the individual acquisition with the investor's ownership interest in the fair values of the identifiable assets and liabilities at each step. Appendix 2 illustrates a possible approach to accounting in accordance with this requirement.

5.50 The requirement for a step-by-step comparison applies only with regard to material acquisitions. When there are a number of immaterial acquisitions, it is appropriate to group a series of such acquisitions into a single step, to treat the series in the same way as a single material acquisition.

5.51 It may not always be possible to directly assess fair values of the investee's identifiable assets and liabilities with regard to acquisitions of ownership interests before control is obtained. This may be the position in circumstances when formal fair value assessments were not undertaken at the times of acquisitions that did not lead to control, and an assessment of fair values can only be made retrospectively. In such cases, it may be appropriate to estimate those fair values on the basis of carrying amounts at those points in time, adjusted in a manner consistent with the relationship between carrying amounts and fair values at the point that control is obtained.

5.52 Any goodwill or discount on acquisition corresponding to an acquisition before control is obtained is not to be recognised or accounted for separately from the investment asset until control is obtained. Such goodwill or discount on acquisition is to be notionally identified for the purpose of being included in any amount of goodwill or discount on acquisition to be recognised or accounted for separately once control is obtained.

5.53 When an investment in an investee has been revalued or accounted for under the equity method before the investee became a subsidiary, any amount previously recognised in group equity corresponding to the investor's ownership interest in

the investee will then remain in group equity as post-acquisition equity of the subsidiary. In such case, further recognition attributable to the investor's ownership interest is only to be made of the balance of any difference in fair values between the date the previous ownership interest was acquired and the date the investee became a subsidiary, to the extent that this is attributable to the ownership interest previously held by the investor.

5.54 When an investment in an investee has not been revalued or accounted for under the equity method before the investee became a subsidiary, further recognition attributable to the investor's ownership interest is to be made of the full amount of any difference in fair values between the date the previous ownership interest was acquired and the date the investee became a subsidiary, to the extent that this is attributable to the ownership interest previously held by the investor.

5.55 Recognition of the investor's share of any difference in fair values of the identifiable assets and liabilities between the date the previous ownership interest was acquired and the date the investee became a subsidiary is to be made in the statement of financial performance to the extent that the difference represents the investor's share of net surpluses or deficits of the investee, and in the statement of movements in equity to the extent that the difference represents the investor's share of other movements in equity of the investee.

5.56 Acquisitions of ownership interests in an investee after an investee becomes a subsidiary are accounted for in a similar manner to that required under paragraph 5.48. Relevant requirements and guidance are set out in FRS-37: *Consolidating Investments in Subsidiaries*.

6 DISCLOSURES

STANDARD

6.1 The disclosure requirements in this section of the Standard apply to the financial statements which report the combination of entities or operations.

6.2 The following disclosures must be made in the financial statements for the period during which an acquisition has occurred that has resulted in a combination of entities or operations:

- **(a) a description of the operation or ownership interest that has been acquired;**
- **(b) the acquisition date;**
- **(c) the percentage of ownership interest, and also voting interest if different, acquired, if applicable;**
- **(d) the aggregate purchase consideration and a description of the components of the purchase consideration;**

(e) the aggregate increase in each class of identifiable assets and liabilities recognised as a result of the acquisition;

(f) the aggregate carrying amount of provisions for terminating or reducing activities attributable to each acquisition that have been included in part (e);

(g) any operations disposed of, or that will be disposed of, as a result of the acquisition.

6.3 The financial statements must disclose the following information with regard to any goodwill recognised as an asset:

(a) the amortisation period(s) adopted;

(b) if goodwill is not amortised on a straight-line basis, the basis used and reason why that basis is more appropriate than the straight-line basis;

(c) the line item(s) of the statement of financial performance in which the amortisation of goodwill is included; and

(d) a reconciliation of the carrying amount of goodwill at the beginning and end of the period, showing:

(i) the gross amount and the accumulated amortisation (aggregated with accumulated impairment losses), at the beginning of the period;

(ii) any additional goodwill recognised during the period;

(iii) any adjustments resulting from subsequent identification or changes in value of identifiable assets and liabilities;

(iv) any goodwill derecognised on the disposal of all or part of the business to which it relates during the period;

(v) amortisation recognised during the period;

(vi) any impairment losses recognised during the period;

(vii) any impairment losses reversed during the period;

(viii) any other changes in the carrying amount during the period; and

(ix) the gross amount of goodwill and the accumulated amortisation (aggregated with accumulated impairment losses), at the end of the period.

6.4 The financial statements must disclose the following information regarding discount on acquisition:

(a) the amount applied to reduce the fair values of recognised identifiable non-monetary assets attributable to an acquisition during the period;

(b) any amount recognised as revenue during the period;

(c) any adjustments to amounts arising in previous periods resulting from the subsequent recognition of identifiable assets and liabilities during the period; and

(d) any adjustments to amounts arising in previous periods resulting from subsequent changes either in the values assigned to identifiable assets and liabilities or in the cost of acquisition.

6.5 In an acquisition, if the fair values of the identifiable assets and liabilities or the purchase consideration can be determined only on a provisional basis at the end of the period in which the acquisition took place, this fact and the corresponding reasons must be disclosed. When there are subsequent adjustments to such provisional fair values, those adjustments must be disclosed and explained in the financial statements of the period concerned.

6.6 The following information must also be disclosed with regard to any combinations of entities or operations that arise subsequent to the reporting date, to the extent it is practicable to disclose this information:

(a) the information required to be disclosed in paragraphs 6.2, and 6.5; and

(b) the amount of goodwill or discount on acquisition that will arise.

COMMENTARY

6.7 The disclosure of information with regard to any combinations of entities or operations that arise subsequent to the reporting date will, in most circumstances, be relevant information to users. As a minimum, disclosures are to be made in accordance with FRS-5: *Events After Balance Date*. Where practicable, the information required in paragraphs 6.2 and 6.5 is also to be disclosed regarding combinations subsequent to reporting date.

7 TRANSITIONAL PROVISIONS

STANDARD

7.1 Comparative figures are not required to be presented in the first period of application of this Standard with regard to items required under this Standard that have not been disclosed in the entity's financial statements of the prior period.

COMMENTARY

7.2 The disclosure of comparative figures that are not required as a consequence of paragraph 7.1 is encouraged.

STANDARD

7.3 Where an investor has acquired an operation prior to the beginning of the period in which this Standard is first applied, the carrying amounts of the relevant identifiable assets and liabilities and any goodwill at the end of the period immediately prior to that in which this Standard is first applied, are deemed to have been determined in accordance with this Standard.

COMMENTARY

7.4 This Standard does not require or permit retrospective adjustment for any accounting policy changes required to be made as a consequence of the application of this Standard. However, any goodwill attributable to previous acquisitions of operations or ownership interests in subsidiaries that is recognised at the start of the period this Standard is first applied, is to be amortised over its remaining useful life as determined in accordance with this Standard.

APPENDIX 1

Comparison of FRS-36 with International and Australian Accounting Standards

This comparison appendix was prepared as at 15 May 2001 and deals only with significant differences between the standards. The comparison is produced for information purposes only and does not form part of the standards in FRS-36.

Accounting standards are promulgated internationally by both the International Accounting Standards Board (IASB) and the Public Sector Committee of the International Federation of Accountants (IFAC PSC). The international standards referred to in this appendix cover only those promulgated by the IASB because the IFAC PSC has not yet promulgated standards on this topic.

The international and Australian accounting standards comparable with FRS-36 are:

IASB

- IAS 22 (revised 1998): *Business Combinations*
- IAS 27 (1988): *Consolidated Financial Statements and Accounting for Investments in Subsidiaries*
- IAS 28 (revised 2000): *Accounting for Investments in Associates*
- IAS 36 (1998): *Impairment of Assets.*

AUSTRALIA

- AASB 1004 (revised 1998): *Revenue*
- AASB 1013 (1996): *Accounting for Goodwill*
- AASB 1015 (1999): *Acquisitions of Assets*
- AASB 1016 (1997): *Accounting for Investments in Associates*
- AASB 1024 (1992): *Consolidated Accounts*
- AAS 14 (1997): *Accounting for Investments in Associates*
- AAS 18 (1996): *Accounting for Goodwill*
- AAS 21 (1985): *Accounting for the Acquisition of Assets* (including Business Entities)
- AAS 24 (1992): *Consolidated Financial Reports*.

The following summarises the significant differences between the above pronouncements and FRS-36. However, please note this appendix compares requirements in the jurisdictions rather than the requirements in particular standards.

Scope

AASB 1015 covers acquisitions of all forms of asset (single assets, operations, undertakings, equity interests) while the scope of IAS 22 is limited to acquisitions of undertakings and controlling equity interests. FRS-36 covers acquisitions of operations, undertakings and controlling equity interests.

AASB 1015 includes requirements for the accounting treatment of intra-group reconstructions (although see comments under Pooling of Interests heading below). FRS-36 excludes requirements for the treatment of intra-group reconstructions. These are defined essentially as transfers of operations or ownership interests in entities that occur within an entity reporting where the resources controlled by the entity do not change as a result of the transfer in circumstances where no change arises in certain ownership interests. IAS 22 excludes from its scope acquisition transactions between entities under common control.

Pooling of Interests Approach

IAS 22 requires combination transactions within its scope to be accounted for as a pooling (uniting) of interests in the exceptional circumstances when an acquirer is unable to be identified. AASB 1015, as a result of a disallowance resolution passed by the Australian Senate in February 2000, and FRS-36 require all combination transactions within their scope to be accounted for under the purchase method. This means that AASB 1015 and FRS-36 prohibit pooling of interests in all cases.

Since IAS 22 does not apply to transactions between entities under common control and FRS-36 does not apply to intra-group reconstructions, IAS 22 and FRS-36 therefore do not restrict the adoption of pooling of interests in those cases. However, in contrast, since AASB 1015 applies to intra-group reconstructions, AASB 1015, as a result of the Australian Senate disallowance resolution, requires purchase accounting for those transactions also.

Amortisation of Goodwill

All three jurisdictions require goodwill to be recognised as an asset and amortised. IAS 22 adopts a rebuttable presumption that goodwill has a maximum 20 year life for amortisation purposes but permits goodwill to be amortised over a period longer than 20 years in certain circumstances subject to an annual impairment test. AASB 1013 and FRS-36 both prescribe a maximum period of 20 years in all circumstances.

AASB 1013 requires that goodwill be amortised on a straight-line basis in all circumstances. IAS 22 and FRS-36 require straight-line basis to be adopted as a default basis if another more appropriate method cannot be justified.

Reinstatement of Impaired Goodwill

AASB 1013 prohibits any reinstatement of goodwill previously written down due to impairment. In contrast, IAS 36 and FRS-36 require such reinstatement where there is a reversal of the specific circumstances which caused the write down.

Provisioning for Certain Restructuring Costs on Acquisition

IAS 22 and FRS-36 both provide for the investor to recognise a provision for certain types of restructuring costs, as at the date of acquisition, providing certain conditions are met regarding the investor having formed a detailed plan for these types of restructuring by the earlier of three months after the date of acquisition, or the date when the annual financial statements are signed. Both AASB 1015 (revised 1999) and AASB 1013 contain no requirements on this issue. The corresponding position under AASB standards is expected to be dealt with in a final standard based on ED-88 (11/97): *Provisions and Contingencies.*

Treatment of Discount on Acquisition

IAS 22 requires the portion of discount on acquisition that can be attributed to expectations of future losses and expenses to be initially recognised as a liability (deferred revenue) and subsequently recognised as revenue over the period the expected future losses and expenses are incurred. IAS 22 then requires any additional amount of discount on acquisition up to the value of non-monetary assets acquired, to be initially recognised as negative goodwill and presented as a deduction from assets and subsequently recognised as revenue on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortisable assets.

FRS-36 and AASB 1013 require all discount on acquisition up to the value of non-monetary assets acquired to be eliminated on a prorated basis against non-monetary assets acquired.

All three jurisdictions require any discount on acquisition in excess of the value of non-monetary assets acquired to be recognised as revenue immediately.

Measurement of Minority Interest

In the preparation of consolidated financial statements, both AASB 1024 and FRS-36 require minority interest to be measured based on the fair values of subsidiary assets at acquisition and subsidiary assets to be recognised at fair values at acquisition. This differs from the benchmark treatment under IAS 22, which requires minority interest to be measured at carrying values and subsidiary assets to be recognised at a mixture of fair values and carrying values. However, the allowed alternative treatment under IAS 22 is consistent with AASB 1024 and FRS-36.

Step-Acquisitions Leading to Control
Both IAS 22 and FRS-36 provide guidance on step-acquisitions of equity interests leading to control. AASB 1015 and AASB 1013 contain no guidance on this issue.

Both IAS 22 and FRS-36 require that step-acquisitions of equity interests leading to control be accounted for under a step-by-step approach which involves determination of goodwill based on each individual interest separately acquired. In accounting for each acquisition, FRS-36 requires subsidiary assets to be recognised at fair values at each acquisition of an interest. This differs from the benchmark treatment under IAS 22, which requires subsidiary assets to be recognised at a mixture of fair values and carrying values. However, the allowed alternative treatment under IAS 22 is consistent with AASB 1024 and FRS-36.

Extent of Disclosures Required
IAS 22 requires extensive disclosures concerning goodwill and discount on acquisition. Less extensive disclosures are required in AASB 1013 and FRS-36 (with regard to both goodwill and discount on acquisition).

Transitional Provisions
IAS 22 includes transitional provisions generally requiring retrospective application of the requirements of the standard through a prior period adjustment. Exceptions to this rule are, however, provided within IAS 22 to recognise specific circumstances where, although still encouraged, retrospective adjustment may not be practicable. IAS 22 does not permit retrospective adjustment for goodwill previously amortised.

In contrast to IAS 22, FRS-36 and AASB 1013 do not provide for retrospective application of the Standard and FRS-36 specifically deems balances of assets and liabilities and applicable goodwill that exist when FRS-36 first takes effect to be determined in accordance with FRS-36. However, both AASB 1013 and FRS-36 provide an exemption from disclosure of previous period comparative information to the extent that it has not previously been required or reported. IAS 22 does not include an exemption from disclosure of previous period comparative information other than regarding disclosures of movements in carrying amounts of goodwill and discount on acquisition.

APPENDIX 2

Investee Becoming a Subsidiary Subsequent to Initial Acquisition

The content of this appendix is included for illustrative purposes only and does not form part of the Financial Reporting Standard.

The following example illustrates the treatment required under paragraph 5.48 of FRS-36 to account for a step-acquisition of a subsidiary. The example shows successive acquisitions of 40% and 35% interests with:

- adoption of the equity method in accordance with FRS-38: *Accounting for Investments in Associates* following the acquisition of the 40% interest up to the point of acquisition of the 35% interest; and
- consolidation immediately after acquisition of the 35% interest.

Relevant details concerning the acquisition of each interest are set out in the following table.

Tranche number	1	2
Interest acquired	40%	35%
(Cumulative interest)	(40%)	(75%)
Carrying value of investee equity at acquisition of tranche	1000	1250
Fair value of investee equity at acquisition of tranche	1300	1750
(Implied revaluation reserve)	(300)	(500)
Share of fair value acquired	520	612.5
Cost of interest	600	700
Goodwill measurement on interest acquired	80	87.5

The following assumptions are adopted:

- The parent has other subsidiaries and the parent's financial statements introduced in the consolidation worksheet below represent the financial statements of the rest of the group. (This assumption is necessary to justify equity accounting in the group statements before consolidation.)
- Goodwill is to be amortised over a 10-year period. The two acquisitions are one year apart and each occurred on day 1 of the group's reporting period. (The assumption as to timing of the acquisitions is needed to provide: (1) a clear separation between what is included in opening equity and what is included in the current year movements in the group statement of movements in equity; and (2) a clear measurement of amortised goodwill.)
- The recognition of fair values is not pushed down into the investee's books (i.e. the revaluations are made as consolidation entries only).

- Fair value adjustments for depreciation are ignored.
- There has been no disposal of assets which the implied revaluation reserve relates to, at the time of acquisition of the 40% interest.

Acquisition of Tranche 1

At the point of acquisition of the 40% interest, the group will report an investment in an associate at its cost of $600. The fair values of the investee's net assets at acquisition of the 40% interest ($1300 in total with $520 corresponding to the 40% interest) and goodwill on acquisition ($80) will both be identified. Goodwill will continue to be included in the cost of the investment and will not be recognised separately.

Application of the Equity Method Following Tranche 1

Assuming the equity method was adopted subsequent to the acquisition of the 40% interest, the following information would be included in the group financial statements immediately prior to the acquisition of the 35% interest.

Group assets	
Investment in Investee:	
Cost of 40% interest	600
Add investor's percentage increase in the carrying value of the investee's equity since acquisition of the 40% interest, net of amortised goodwill [40% x (1250-1000) - 8]	92
	692

Group equity	
Share of investee's post-acquisition increase in the carrying value of equity	92

Consolidation Following Tranche 2

The consolidation worksheet below illustrates the preparation of the financial statements of the group immediately after acquisition of the 35% interest.

	Parent	Subsidiary	Consolidation Entry		Group
			Dr	Cr	
Equity					
Parent equity	5000				5000
Subsidiary equity		1000	1000		
Post-acquisition retained earnings of subsidiary		250	150 + 8		92[1]
Post-acquisition asset revaluation reserve of subsidiary				80	80[2]
Minority interest				437.5	437.5[3]
Assets					
Investment in subsidiary	1300			1300	-
Other parent assets	3700				3700
Subsidiary assets		1250	500		1750
Goodwill			167.5	8	159.5[4]
					5609.5

[1] 40% x (1250 - 1000) - 8
[2] 40% x (500 - 300)
[3] 25% x 1750
[4] 80 + 87.5 - 8

In the group statement of movements in equity:

- the investor's share ($92) of the post-acquisition (40% interest) increase in the carrying value of the subsidiary's net assets, net of amortised goodwill, will be included in the opening equity[1]; and
- the investor's share ($80) of the post-acquisition (40% interest) revaluation reserve balance movement will be included in the total recognised revenues and expenses[2].

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1 This is because it will already have been recognised as revenue in the previous year under the equity method.

2 The investor's share of the post-acquisition revaluation reserve balance movement is equal to the investor's share (40%) of (1) the post-acquisition increase in the fair value of the subsidiary's net assets (1750 - 1300 = 450), less (2) the post-acquisition increase in the carrying value of the subsidiary's net assets (1250 - 1000 = 250).

APPENDIX 3

Applications of Definition of Intra-group Reconstruction

The content of this appendix is included for illustrative purposes only and does not form part of the Financial Reporting Standard.

The following four examples illustrate applications of the definition of intra-group reconstruction in paragraph 4.44 of the Standard. Examples 1 – 3 illustrate how the meaning of the term intra-group reconstruction is to be interpreted in the context of the particular group entity that is reporting. Example 4 illustrates how a transfer that is wholly within a particular group entity does not meet the definition of intra-group reconstruction where there is a consequential change in ownership interests.

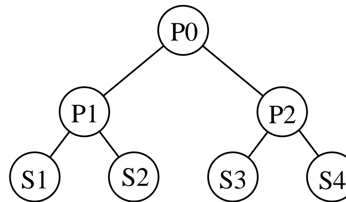
The corporate structure in each of examples 1 – 4 comprises companies P0, P1, P2, S1, S2, S3, and S4. All companies are New Zealand registered companies except in the case of examples 2 and 3 where P0 is an Australian registered company. Companies P1, P2, S1, S2, S3, and S4 are all wholly owned except in the case of example 4 where P1 is 80% owned.

Assume, in the case of each of the four examples:

- there is a transfer from P2 to P1 of the complete ownership interest in S3;
- P0 and P1 must prepare consolidated financial statements.

Example 1

All New Zealand entities



Comments

P0 prepares consolidated financial statements for the complete group (requirement under the Financial Reporting Act 1993 to report).

P1 prepares consolidated financial statements for the P1 subgroup (in this case, P1 is assumed to be an issuer and is therefore required under the Financial Reporting Act 1993 to report).

Conclusion

The transfer of the ownership interest in S3 from P2 to P1:

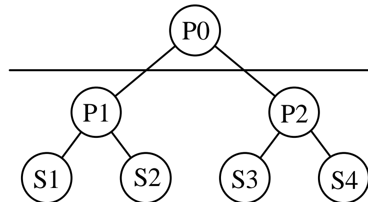
(i) meets the definition of intra-group reconstruction in the case of the P0 group as the transfer is wholly within the P0 group. The transfer is therefore not required to be accounted for as an acquisition in the consolidated financial statements of the P0 group, in accordance with FRS-36.

(ii) does not meet the definition of intra-group reconstruction in the case of the P1 group as the transfer is from outside the P1 group. The transfer is therefore required to be accounted for as an acquisition in the consolidated financial statements of the P1 group, in accordance with FRS-36.

Example 2

Australia

New Zealand



Comments

P0 prepares consolidated financial statements in Australia (not subject to New Zealand financial reporting requirements).

P1 and P2 both prepare consolidated financial statements in New Zealand for their respective sub-groups (both companies are the highest level New Zealand companies of the overseas-owned group and are therefore required under the Financial Reporting Act 1993 to report).

Conclusion

The transfer of the ownership interest in S3 from P2 to P1:

(i) does not meet the definition of intra-group reconstruction in the case of the P1 group as the transfer is from outside the P1 group. The transfer is therefore required to be accounted for as an acquisition in the consolidated financial statements of the P1 group, in accordance with FRS-36.

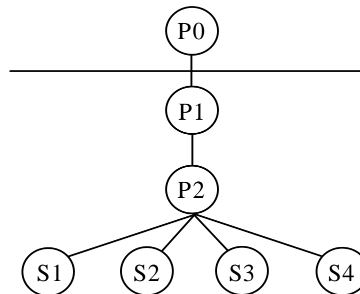
(ii) does not meet the definition of intra-group reconstruction in the case of the P2 group as the transfer is to outside the P2 group. The transfer is treated as a disposal in the consolidated financial statements of the P2 group in accordance with the requirements of the financial reporting standard covering consolidating investments in subsidiaries (Refer to FRS-37: *Consolidating Investments in Subsidiaries*). The disposal is not covered by FRS-36, which deals only with acquisitions.

The position in the P0 group is not relevant.

Example 3

Australia

New Zealand



Comments
P0 prepares consolidated financial statements in Australia (not subject to New Zealand financial reporting requirements).

P1 prepares consolidated financial statements in New Zealand for the P1 subgroup (P1 is the highest level New Zealand company of the overseas-owned group and is therefore required under the *Financial Reporting Act 1993* to report).

Conclusion
The transfer of the ownership interest in S3 from P2 to P1 meets the definition of intra-group reconstruction in the case of the P1 group as the transfer is wholly within the P1 group. The transfer is therefore not required to be accounted for as an acquisition in the consolidated financial statements of the P1 group, in accordance with FRS-36.

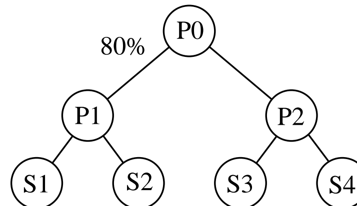
The position in the P0 group is not relevant.

Note that if the position in P1's own financial statements were also to be considered:

- The transfer of the ownership interest in S3 from P2 to P1 also meets the definition of intra-group reconstruction even though P1 will then have a change in "line item" assets (ie after the transfer, instead of just having a single "investment in P2" asset, P1 will then have an additional "investment in S3" asset). In such case, the transfer still meets the definition of intra-group reconstruction because the net assets subject to the control of P1 have not changed.
- If, instead of a transfer of the ownership interest in S3 from P2 to P1, S3 were to be amalgamated into P1 (with P1 being the continuing entity and S3 being liquidated), P1 would then directly report the individual assets and liabilities previously held by S3. In such case, the transfer would similarly meet the definition of intra-group reconstruction because, despite the different gross totals of assets and liabilities then being reported, the net assets subject to the control of P1 would not change.

Example 4

All New Zealand entities



Comments

P0 prepares consolidated financial statements for the complete group (requirement under the *Financial Reporting Act 1993* to report).

P1 prepares consolidated financial statements for the P1 subgroup (P1 is not wholly owned by P0 and is therefore required under the *Financial Reporting Act 1993* to report).

Conclusion

The transfer of the ownership interest in S3 from P2 to P1:

(i) does not meet the definition of intra-group reconstruction in the case of the P0 group as, although the transfer is wholly within the P0 group, the relative ownership interests have changed. The transfer is therefore accounted for as a disposal of the 20% interest in S3 in the consolidated financial statements of the P0 group.

(ii) does not meet the definition of intra-group reconstruction in the case of the P1 group as the transfer is from outside the P1 group. The transfer is therefore required to be accounted for as an acquisition in the consolidated financial statements of the P1 group, in accordance with FRS-36.

History

Previously issued accounting standards superseded by this Financial Reporting Standard:

SSAP-8: *Accounting for Business Combinations* (revised October 1990 and effective for periods commencing on or after 1 January 1991).

SSAP-8: *Accounting for Business Combinations* (issued October 1987 and effective for periods commencing on or after 1 January 1988).

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