PMR: BUSINESS COMBINATIONS, SUBSIDIARIES, CONSOLIDATION, NON-CONTROLLING INTEREST ASPE: 1582, 1590, 1601, 1602

N.B. – Text in purple are not converged between ASPE and IFRS

- A **business combination** is a transaction or other event in which an acquirer obtains control of one or more businesses
- All business combinations are accounted for using the **acquisition method**
- Some formulas you should remember:
  - Acquisition cost + Non-controlling Interest – FV of the **net** identifiable assets = Goodwill
  - Acquisition cost + NCI – BV of the net identifiable assets = Acquisition Differentials
  - Acquisition differential +- FV increments of the net identifiable assets = Goodwill

    - **Acquisition cost** (or purchase price) includes the following:
      - FV of asset transferred at the acquisition date (including cash)
      - FV of the liabilities incurred
      - Equity Issued by the acquirer
      - FV of contingent considerations - **we recognize it even if we think we will not end up paying**

    - **Contingent Considerations** - is usually an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquiree as part of the exchange for control of the acquiree if specified future events occur or conditions are met
      - **If contingent consideration is to issue** shares that are fixed in quantity – Equity (credit entry)
      - **If contingent consideration is to issue** Shares that are fixed in $ (dollar) amount – Liability (credit entry)
      - **If contingent consideration is to pay out** cash – liability (credit entry)

    - **Non-controlling Interest** – two methods (**remember this for SOA and UFE as well**)
      1. FV of the Non-controlling Interest
      2. NCI shareholders' % of the Net Identifiable Assets
         - When using this method; the NCI shareholders are not attributed any portion of the goodwill for consolidation purposes

      - There are two ways of calculating the FV of the non-controlling interest (method 1)
        1. $\frac{\text{Acquisition cost}}{controlling\ shareholders'\%\ of\ ownership} * NCI\ shareholders'\ \%\ of\ ownership$
        2. Use valuation to calculate the FV of the NCI (price per share * # of shares held by NCI shareholders

  - The **identifiable assets** are measured at the acquisition date **fair values**:
    - An asset is identifiable if it either:
      - is separable (i.e., capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability); or
      - Arises from contractual or other legal rights

Bargain Purchases

- Occurs when the acquisition cost + NCI is less than the FV of the net identifiable assets; there will be a negative good will and will be recognized as a gain in P&L.

  - Contingent Liabilities – special rule under Business Combinations
    - Recognize a contingent liability that's measurable at the date of a business combination **EVEN if NOT LIKELY** that future outflow of economic benefits will take place– this is because under business combinations we value the net identifiable assets at the fair value.

  - The following are not part of acquisition cost:
    - Non-compete clauses signed with previous shareholders – these are transactions between shareholders and not an incremental cost of acquisition
    - Transaction costs (commissions) – expensed
    - Professional fees (legal, accounting, consulting) – these are also expensed

1-year measurement period rule

- You have one year from date of acquisition to revise (in light of new info) the acquisition cost, fair values of the net identifiable assets, and therefore G/W - adjustments are made to goodwill and acquisition differentials
  - Anything after this period is treated as an error - and accounted for as a retrospective adjustment
  - 1 year measurement period Applies for ASPE and IFRS
  - Doesn't apply to contingent consideration
    - Changes in contingent consideration is not considered a measurement period adjustment; so the one year measurement rule doesn't apply to contingent considerations
      - So don't adjust goodwill
      - Adjust it directly to NI if it's a contingent consideration that is a liability
      - Adjust it to SE if it's a equity settled contingent consideration (RE or c/surplus)

Accounting for Subsidiaries – 3 Options under ASPE *** this comes up on cases all the time!

1. Cost
2. Equity
3. Consolidation

- Once you choose an option, you are stuck, and must account for all subsidiaries under that method

The basics of consolidation – (you will not see much of this on the SOA/UFE)

1. Balance sheet

- Identifiable assets and liabilities = BV of Parent + BV of Sub + Unamortized Acquisition differential
- Goodwill = calculated amount (see above) less impairment to date
- NCI = (NCI ownership %) * (Sub's Net Assets+ unamortized acquisition differential)
- Eliminate intercompany payables/receivables
- Eliminate intercompany gains and losses on up-stream and down-stream transactions
- Consolidated R/E = Parent's RE + change in Sub's RE since acquisition +- amortization of acquisition differential since acquisition.

2. Income Statement
   a. Revenues/Expenses = Revenue/Expenses of Parent + Revenues/Expenses of Sub
   b. Amortization of acquisition differential = expenses
   c. Adjust for intercompany transactions (gains/losses)
   d. NCI's % of NI = (NI of Sub +- Acquisition differential amortization)*NCI %

Sale of shares while maintain control

- This is a transaction between NCI shareholders and the Controlling shareholders
- Gain or loss is recognized in *contributed surplus or retained earnings(in equity)*
- It's like a capital injection from NCI shareholders

Going from significant influence to control – very easy 3 step process

1. Revalue the equity investment to FV
2. (Step 1 + Cash Paid)/% invested total = Acquisition Cost
3. Everything else is the same (as the acquisition method above to calculate goodwill)

Loss of Control

- Under ASPE, you report a gain/loss on the income statement
- any investment retained in the former subsidiary is measured at the carrying amount at the date when control is lost

Consolidating when the Year End of the Parent doesn't match the YE of the Sub:

- We consolidate using the closest F/S and **disclose** significant events in relation to the consolidated financial statements (no 3 month rule like IFRS)

Assembled vs. Specialized Workforce

- **Assembled workforce** = existing collection of employees that permits the acquirer to continue to operate an acquired business from the acquisition date
- **Specialized workforce** = represent the intellectual capital of the skilled workforce — the (often specialized) knowledge and experience that employees of an acquiree bring to their jobs
- **Assembled workforce is already part of goodwill**
- However, if you can separately identify the specialized workforce from the assembled workforce (i.e. does it meet the definition of net identifiable asset?), then you can capitalize it separate as an intangible asset.