HKAS 27 and HKFRS 3 (Revised)

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Today's Agenda

- Consolidated and Separate Financial Statements (HKAS 27)
- Business Combinations (HKFRS 3)

Consolidated Financial Statements

(HKAS 27)

Consolidated and Separate Fin. S.

Main Issues

1. Scope
2. Presentation of consolidated financial statements
3. Scope of consolidated financial statements
4. Consolidation procedures
5. Loss of control
6. Effective date and transition

Consolidated Financial Statements

Significant changes

New section

Separate Financial Statements

1. Scope

- HKAS 27 *Consolidated and Separate Financial Statements*
  - shall be applied in the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent.
- Consolidated financial statements are the financial statements of a group presented as those of a single economic entity.
- HKAS 27 shall also be applied in accounting for
  - investments in subsidiaries,
  - jointly controlled entities
  - and associates

  when an entity elects, or is required by local regulations, to present separate financial statements

Consolidated Financial Statements

Separate Financial Statements

2. Presentation of Consol. F.S.

- A parent, other than a parent descried below, shall present consolidated financial statements in which it consolidates its investments in subsidiaries in accordance with HKAS 27.
  - A parent is an entity that has one or more subsidiaries.
  - A subsidiary is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).

2. Presentation of Consol. F.S.

- A parent need not present consolidated financial statements if and only if:
  - a) the parent is a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners do not object such non-presenting
  - b) the parent's debt or equity instruments are not traded in a public market;
  - c) the parent did not file, nor is it in the process of filing, its financial statements with a regulatory organization for issuing instruments in a public market; and
  - d) the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with HKFRSs or IFRSs.
    (disclosure is required on the address where those consolidated financial statements are obtainable)

3. Scope of Consolidated Fin. S.

- Consolidated financial statements shall include all subsidiaries of the parent.
  - As defined, a subsidiary is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (i.e. the parent).
  - Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.
- If on acquisition a subsidiary meets the criteria to be classified as held for sale in accordance with HKFRS 5, it shall be accounted for in accordance with HKFRS 5 (not HKAS 27).
  - It implies that
    - Control intended to be temporary should still meet HKFRS 5
    - Control of an entity, which is operating under severe long-term restrictions that significantly impair its ability to transfer funds to the parent, is no longer a reason to exclude a subsidiary

What is Control?

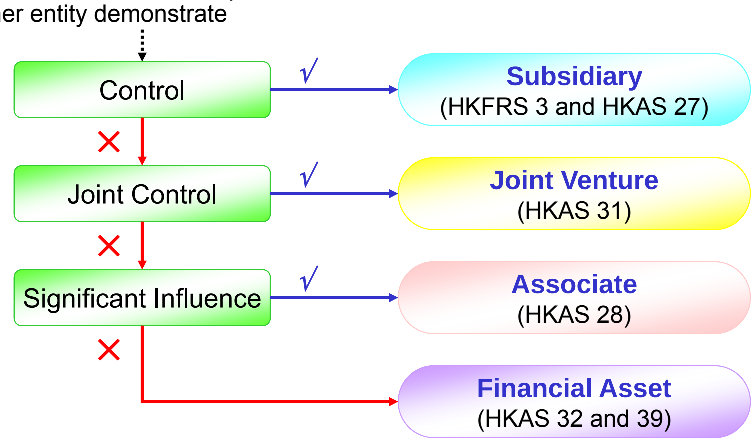
3. Scope of Consolidated Fin. S.

- **Control** is presumed to exist when the parent owns, directly or indirectly, more than half of the voting power of an entity
  – unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control.
- **Control** also exists when the parent owns half or less of the voting power of an entity when there is:
  a) power over more than half of the voting rights by virtue of an agreement with other investors;
  b) power to govern the financial and operating policies of the entity under a statute or an agreement;
  c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or
  d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

What is Control?

3. Scope of Consolidated Fin. S.

An entity shall consider whether all of its financial assets in respect of another entity demonstrate



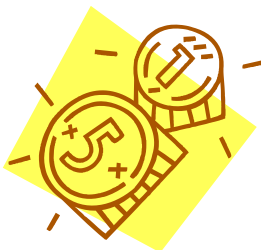
3. Scope of Consolidated Fin. S.

- Potential voting rights refer to the situation that an entity may own
  - share warrants, share call options and other instruments that are convertible into ordinary shares, or
  - other similar instruments that have the potential, if exercised or converted, to give the entity voting power or reduce another party's voting power of another entity.
- Potential voting rights that are currently exercisable or convertible are considered when assessing control.
  - Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.
- In assessing whether potential voting rights contribute to control, the entity examines all facts and circumstances that affect potential voting rights, *except the intention of management and the financial ability to exercise or convert*.

What is Control?

4. Consolidation Procedures

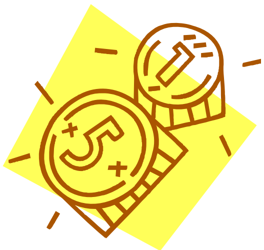
- Consolidation procedures are similar to previous standard, but ……
- Minority interests renamed as "non-controlling interests", which
  - is the equity in a subsidiary not attributable, directly or indirectly, to a parent.



4. Consolidation Procedures

General procedures

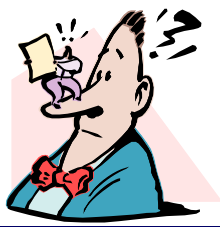
- In preparing consolidated financial statements, an entity combines the financial statements of the parent and its subsidiaries line by line by adding together like items of assets, liabilities, equity, income and expenses.



4. Consolidation Procedures

Non-controlling Interests

- is the equity in a subsidiary not attributable, directly or indirectly, to a parent.
- shall be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent.



4. Consolidation Procedures

Example

Entity A acquired 80% of Entity X at year end by issuing 1,600 shares of HK$1 each and their financial statements are set out below:

	A	X	Line by Line Consol
Non-current assets			
Property, plant & equipment	1,500	2,000	3,500
Current assets			
Inventories	100	500	600
Cash at bank	100	100	200
	200	600	800
Current liabilities			
Account payables	(100)	(600)	(700)
Net current assets	100	0	100
Net assets	*1,600*	*2,000*	*3,600*
Equity			
Share capital	100	200	**1,700**
Reserves	1,500	1,800	**1,500**
	1,600	2,000	3,200
non-controlling interest			**400**
			3,600

4. Consolidation Procedures

Non-controlling Interests

- Profit or loss and each component of other comprehensive income are attributed
  - to the owners of the parent and
  - to the non-controlling interests.
- Total comprehensive income is attributed
  - to the owners of the parent and
  - to the non-controlling interests

Amended

even if this results in the non-controlling interests having a deficit balance.

4. Consolidation Procedures

Example

Entity A holds 80% of Entity X since its incorporation and their financial statements are set out below:

	A	X	Consol.	Consol. in old HKAS 27
Property, plant & equipment	3,500	2,000	5,500	5,500
Interest in subsidiary	80	-	-	-
Liabilities	(1,000)	(2,600)	(3,600)	(3,600)
Net assets	2,580	(600)	1,900	1,900
Share capital	200	100	200	200
Reserves	2,380	(700)	1,820	1,700
	2,580	(600)	2,020	1,900
Non-controlling interests (Net liabilities of MI of $600 x 20%)			(120)	0
(Assume fair value = carrying amount)			1,900	1,900

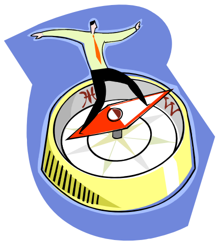
4. Consolidation Procedures

Non-controlling Interests

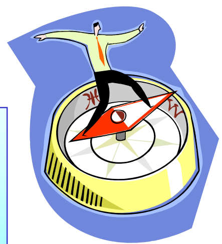
- If a subsidiary has outstanding cumulative preference shares that are classified as equity and are held by non-controlling interests,
  - the parent computes its share of profit or loss after adjusting for the dividends on such shares, whether or not dividends have been declared.

4. Consolidation Procedures

- Most critical ……
  – Changes in a parent’s ownership interest in a subsidiary that do not result in a loss of control
    - are accounted for **as equity transactions** (i.e. transactions with owners in their capacity as owners)
    - i.e. no gain or loss on disposal of interests in subsidiary can be recognised in profit or loss if the subsidiary is still a subsidiary.



4. Consolidation Procedures



- In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary.
- Any difference between
  – the amount by which the non-controlling interests are adjusted and
  – the fair value of the consideration paid or received

  shall be recognised directly in equity and attributed to the owners of the parent.

4. Consolidation Procedures

Example

Entity A holds 80% of Entity X since its incorporation and their financial statements are set out below:

Disposed of 20% interest at $50

	A	X	Consol pre-change
Property, plant & equipment	3,500	2,000	5,500
Interest in subsidiary	80	-	-
Net current liabilities	(1,000)	(2,600)	(3,600)
Net assets	2,580	(600)	1,900
Share capital	200	100	200
Reserves	2,380	(700)	1,820
	2,580	(600)	2,020
Non-controlling interests			(120)
(Assume fair value = carrying amount)			1,900

4. Consolidation Procedures

Example

Entity A holds 80% of Entity X since its incorporation and their financial statements are set out below:

Disposed of 20% interest at $50

	A	X	Consol pre-change

- In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary.
- Any difference between
  - the amount by which the non-controlling interests are adjusted and
  - the fair value of the consideration paid or received

  shall be recognised directly in equity and attributed to the owners of the parent.

NCI to be adjusted	(120)
Consideration	50
Difference to equity	170

Non-controlling interests	(120)
(Assume fair value = carrying amount)	1,900

4. Consolidation Procedures

Example

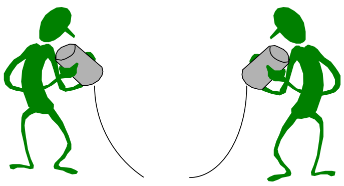
Entity A holds 80% of Entity X since its incorporation and their financial statements are set out below:

Disposed of 20% interest at $50

	A	**X**	**Consol pre-change**	**Dr/(Cr)**	**Consol. after change**
Property, plant & equipment	3,500	2,000	5,500		5,500
Interest in subsidiary	80	-	-		-
Net current liabilities	(1,000)	(2,600)	(3,600)	50	(3,550)
Net assets	2,580	(600)	1,900		1,950
Share capital	200	100	200		200
Reserves	2,380	(700)	1,820	170	1,990
	2,580	(600)	2,020		2,190
Non-controlling interests			(120)	(120)	(240)
(Assume fair value = carrying amount)			1,900		1,950

5. Loss of Control

- It occurs when a parent loses the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities
- It can occur with or without a change in absolute or relative ownership levels, for example:
  - when a subsidiary becomes subject to the control of a government, court, administrator or regulator, or
  - as a result of a contractual agreement



5. Loss of Control

- Specific requirements introduced when a parent loses control of a subsidiary:
  - If a parent loses control of a subsidiary, it:
    a) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;
    b) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them);
    c) recognises:
       i) the fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control; and
       ii) if the transaction that resulted in the loss of control involves a distribution of shares of the subsidiary to owners in their capacity as owners, that distribution;

5. Loss of Control

- Specific requirements introduced when a parent loses control of a subsidiary:
  - If a parent loses control of a subsidiary, it:
    d) recognises any investment retained in the former subsidiary at its fair value at the date when control is lost;
    e) reclassifies to profit or loss, or transfers directly to retained earnings if required in accordance with other HKFRSs, the amounts identified in HKAS 27.35 (discussed in next slide); and
    f) recognises any resulting difference as a gain or loss in profit or loss attributable to the parent.

5. Loss of Control

- If a parent loses control of a subsidiary,
  - the parent shall account for all amounts recognised in other comprehensive income in relation to that subsidiary
    - on the same basis as would be required if the parent had directly disposed of the related assets or liabilities.
- Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities,
  - the parent reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary.

5. Loss of Control

Example

Think about 2 different cases with similar figures:

HK$	Sub. A	Sub. B
Sale proceeds	100	100
Carrying amount of the subsidiary's net assets in consolidated financial statements	100	100

Anything recognised in profit or loss?

What is the further information you have to ask?

5. Loss of Control

Example

What if ……

similar figures:

HK$	Sub. A	Sub. B
Sale proceeds	100	100
Carrying amount of the subsidiary's net assets in consolidated financial statements	100	100
Representing: - Revalued amount of available-for-sale - Revalued amount of PPE	 100 	 100
Revaluation reserves	*20*	*20*

Anything recognised in profit or loss?

5. Loss of Control

Example

A parent loses control of a subsidiary and the subsidiary has the following assets:

- The subsidiary has available-for-sale financial assets

The parent shall reclassify to profit or loss the gain or loss previously recognised in other comprehensive income in relation to those assets.

- The subsidiary has property, plant and equipment with revaluation surplus previously recognised in other comprehensive income

The parent transfers the revaluation surplus directly to retained earnings when it loses control of the subsidiary

- since the revaluation surplus would be transferred directly to retained earnings on the disposal of the asset

5. Loss of Control

Example

What if ……

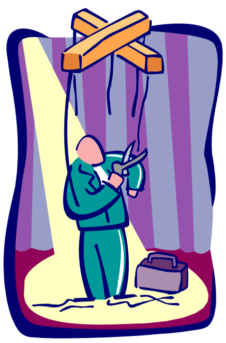
similar figures:

HK$	Sub. A	Sub. B
Sale proceeds	100	100
Carrying amount of the subsidiary's net assets in consolidated financial statements	100	100
Representing: - Revalued amount of available-for-sale - Revalued amount of PPE	 100 	 100
Revaluation reserves	*20*	*20*

Revaluation reserves relating to available-for-sale reclassified to profit or loss

Revaluation reserves relating to PPE transferred directly to retained earnings

5. Loss of Control



- On the loss of control of a subsidiary, any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary shall be accounted for in accordance with other HKFRSs from the date when control is lost.
- The fair value of any investment retained in the former subsidiary at the date when control is lost shall be regarded as the fair value on initial recognition of a financial asset in accordance with
  - HKAS 39 *Financial Instruments: Recognition and Measurement* or,
  - when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.

6. Effective and Transition

- An entity shall apply the amendments to HKAS 27 made in 2008 for annual periods beginning on or after 1 July 2009.
- Earlier application is permitted.
- However, an entity shall not apply these amendments for annual periods beginning before 1 July 2009 unless it also applies HKFRS 3 (as revised in 2008).
- If an entity applies the amendments before 1 July 2009,
  - it shall disclose that fact.

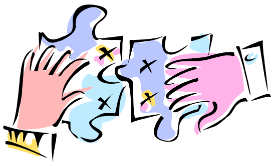
Business Combinations

(HKFRS 3)

Introduction

Scope
⇩
Method of accounting
⇩
Application of the method

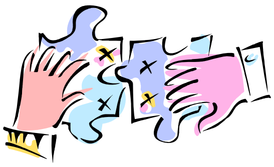
- The objective of HKFRS 3 (revised in 2008) is
  - to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects.
- To accomplish that, HKFRS 3 establishes principles and requirements for how the acquirer:
  a) recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;
  b) recognises and measures
     - the goodwill acquired in the business combination or
     - a gain from a bargain purchase; and What is it?
  c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.



Introduction – Key Changes

Scope
⇩
Method of accounting
⇩
Application of the method

- Extended the scope, i.e. less exemption
- Acquisition-date fair value extensively applied, including:
  - Non-controlling interests (or minority interests) can be measured at "full" fair value approach
  - Goodwill can incorporate the goodwill of non-controlling interests
  - Intangible asset identified in the business combination shall be measured at fair value
  - Contingent consideration shall be measured at fair value
- Step acquisition shall be measured by a different approach
- All transactions costs to be expensed



Scope of HKFRS 3

Scope

- HKFRS 3 applies to a transaction or other event that meets the definition of a business combination.
- HKFRS 3 does not apply to:
  a) the formation of a joint venture.
  b) the acquisition of an asset or a group of assets that does not constitute a business.
     - Brief requirements set out for such acquisition and it does not give rise to goodwill
  c) a combination of entities or businesses under common control.

AG 5 is still applicable

Scope of HKFRS 3

Example

Are the following business combinations involving entities or businesses under common control?

How to account for those not within the HKFRS 3's scope ……
to be discussed

1. Group A holds 100% interest in X and Group B holds 100% interest in Y
   - Both groups have agreed to pool together X and Y and formed as new company XY to hold 100% interest in X and Y

Not under common control
→ within scope of HKFRS 3
- X and Y are not ultimately controlled by the same party or parties both before and after the business combination

2. Group C holds 60% interest in AL and 75% interest in GV
   - AL holds 80% interest in a property group
   - GV holds 60% interest in an infrastructure group
   - Group C decided to acquired AL's interest in its property group and GV's interest in its infrastructure group

Under common control
→ not within scope of HKFRS 3
- Both AL and GV are ultimately controlled by the same party, Group C, before and after the business combination

Identifying a Business Combination

Scope

- An entity shall determine whether a transaction or other event is a business combination by applying the definition in HKFRS 3,
  - which requires that the assets acquired and liabilities assumed constitute a business.
- If the assets acquired are not a business,
  - the reporting entity shall account for the transaction or other event as an asset acquisition. (HKFRS 3.3)
- HKFRS 3.B5–B12 provide guidance on identifying a business combination and the definition of a business.

Business Combination

vs

Asset Acquisition

Identifying a Business Combination

Scope

- An entity shall determine whether a transaction or other event is a business combination by applying the definition in HKFRS 3,
  - which requires that the assets acquired and liabilities assumed constitute a business. (HKFRS 3.3)

- Business is defined as:
  - an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.
- Business combination is defined as
  - a transaction or other event in which an acquirer obtains control of one or more businesses.
  - Transactions sometimes referred to as 'true mergers' or 'mergers of equals' are also business combinations as that term is used in HKFRS 3.

Business Combination

Identifying a Business Combination

Example

- A business consists of <u>inputs</u> and <u>processes</u> applied to those inputs that have the ability to create <u>outputs</u>.
  - In other words, the three elements of a business are inputs, processes and outputs.
  - Although businesses usually have outputs, outputs are not required for an integrated set to qualify as a business.
- To be capable of being conducted and managed for the purposes defined, an integrated set of activities and assets requires two essential elements – inputs and processes applied to those inputs, which together are or will be used to create outputs.
- However, a business need not include all of the inputs or processes that the seller used in operating that business if market participants are capable of acquiring the business and continuing to produce outputs, for example, by integrating the business with their own inputs & processes.

Business Combination

Identifying a Business Combination

Example

- An integrated set of activities and assets <u>in the development stage might not have outputs</u>.
- If not, the acquirer should <u>consider other factors</u> to determine whether the set is a business.
- Those factors include, but are not limited to, whether the set:
  a) has begun planned principal activities;
  b) has employees, intellectual property and other inputs and processes that could be applied to those inputs;
  c) is pursuing a plan to produce outputs; and
  d) will be able to obtain access to customers that will purchase the outputs.
- Not all of those factors need to be present for a particular integrated set of activities and assets in the development stage to qualify as a business.

Business Combination

The Acquisition Method

Scope
⇩
Method of accounting
⇩
Application of the method

- An entity shall account for each business combination by applying the acquisition method. (HKFRS 3.4)
- Applying the acquisition method requires:
  a) identifying the acquirer; Guidance in HKAS 27
  b) determining the acquisition date; Date of control obtained
  c) recognising and measuring
     - the identifiable assets acquired,
     - the liabilities assumed and
     - any non-controlling interest in the acquiree; and
  d) recognising and measuring
     - goodwill or
     - a gain from a bargain purchase. (HKFRS 3.5)

The Acquisition Method

Scope
⇩
Method of accounting
⇩
Application of the method

- Applying the acquisition method requires:
  a) identifying the acquirer;

- The guidance in HKAS 27 *Consolidated and Separate Financial Statements* shall be used to identify the acquirer – the entity that obtains control of the acquiree.
- If a business combination has occurred but applying the guidance in HKAS 27 does not clearly indicate which of the combining entities is the acquirer, the factors in HKFRS 3.B14–B18 shall be considered in making that determination.

The Acquisition Method

Indication of Control

- Control is the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities.
- Presumed to have control when an entity acquires more than one-half of that other entity's voting rights, unless demonstrated contrary
- Even if no such voting rights, it might have control by obtaining:
  a) power over more than one-half of the voting rights of the other entity by virtue of an agreement with other investors; or
  b) power to govern the financial and operating policies of the other entity under a statute or an agreement; or
  c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body of the other entity; or
  d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body of the other entity.

The Acquisition Method

Indication as an Acquirer

- In a business combination effected primarily by transferring cash or other assets or by incurring liabilities,
  - the acquirer is usually the entity that
    - transfers the cash or other assets or
    - incurs the liabilities.
- In a business combination effected primarily by exchanging equity interests,
  - the acquirer is usually the entity that issues its equity interests.

The Acquisition Method

Indication as an Acquirer

- Other pertinent facts and circumstances shall also be considered in identifying the acquirer in a business combination effected by exchanging equity interests, including:
  a) the relative voting rights in the combined entity after the business combination
  b) the existence of a large minority voting interest in the combined entity if no other owner or organised group of owners has a significant voting interest
  c) the composition of the governing body of the combined entity
  d) the composition of the senior management of the combined entity
  e) the terms of the exchange of equity interests

The Acquisition Method

Indication as an Acquirer

- The acquirer is usually the combining entity whose relative size (measured in, for example, assets, revenues or profit) is significantly greater than that of the other combining entity or entities.
- In a business combination involving more than two entities, determining the acquirer shall include a consideration of, among other things, which of the combining entities initiated the combination, as well as the relative size of the combining entities.
- A new entity formed to effect a business combination is not necessarily the acquirer.
  - If a new entity is formed to issue equity interests to effect a business combination, one of the combining entities that existed before the business combination shall be identified as the acquirer by applying the guidance in HKFRS 3.B13–B17 (as discussed now).
  - In contrast, a new entity that transfers cash or other assets or incurs liabilities as consideration may be the acquirer.

The Acquisition Method

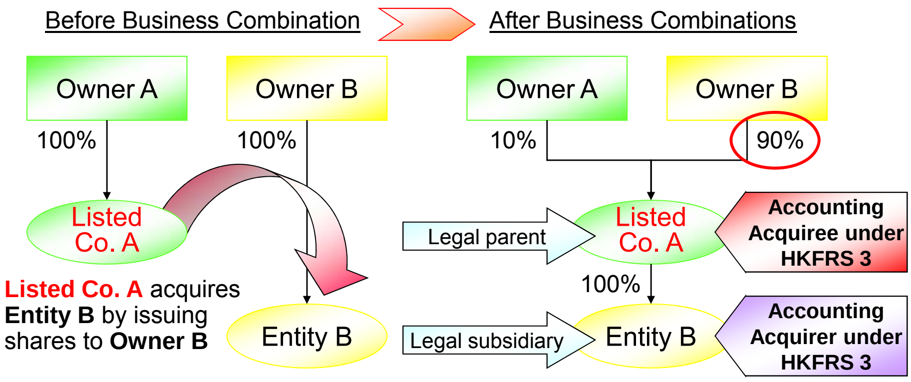
Indication as an Acquirer

- In some business combinations, commonly called 'reverse acquisitions', the issuing entity is the acquiree.
- A reverse acquisition occurs when:
  - the entity that issues securities (the legal acquirer) is identified as the acquiree for accounting purposes on the basis of the guidance in HKFRS 3.B13–B18 (as discussed in previous slides).
  - The entity whose equity interests are acquired (the legal acquiree) must be the acquirer for accounting purposes for the transaction to be considered a reverse acquisition.

> e.g. reverse acquisitions sometimes occur when a private operating entity wants to become a public entity but does not want to register its equity shares.
>
> a private entity arranges to have itself "acquired" by a smaller public entity as a means of obtaining a stock exchange listing
>
> also termed as "reverse takeover" or "back door listing"

The Acquisition Method

Example



Which entity is the legal acquirer?
Which entity is the acquirer under HKFRS 3?

The Acquisition Method

- Reverse acquisition accounting applies only in the consolidated financial statements.
- Therefore, in the legal parent's separate financial statements, if any, the investment in the legal subsidiary
  - is accounted for in accordance with the requirements in HKAS 27 *Consolidated and Separate Financial Statements* on accounting for investments in an investor's separate financial statements.

The Acquisition Method

- Determining the acquisition date

Application of the method

- The acquirer shall identify the acquisition date, which is the date on which it obtains control of the acquiree. (HKFRS 3.8)
  - The date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree — the closing date.
  - However, the acquirer might obtain control on a date that is either earlier or later than the closing date.
    - For example, the acquisition date precedes the closing date if a written agreement provides that the acquirer obtains control of the acquiree on a date before the closing date.
    - An acquirer shall consider all pertinent facts and circumstances in identifying the acquisition date.

The Acquisition Method

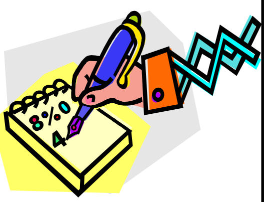
- Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

Application of the method

- As of the acquisition date, the acquirer shall recognise, separately from goodwill,
  - the identifiable assets acquired,
  - the liabilities assumed and
  - any non-controlling interest in the acquiree.
- Recognition of identifiable assets acquired and liabilities assumed is subject to the conditions specified in HKFRS 3.11 and 3.12. (HKFRS 3.10)

The Acquisition Method

- Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

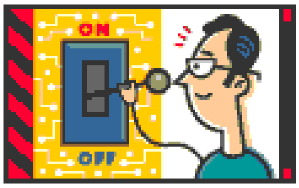


- To qualify for recognition as part of applying the acquisition method,
  - the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the *Framework for the Preparation and Presentation of Financial Statements* at the acquisition date.
- In addition, to qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must be
  - part of what the acquirer and the acquiree (or its former owners) exchanged in the business combination transaction
  - rather than the result of separate transactions.

The Acquisition Method

- Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

- The acquirer's application of the recognition principle and conditions may result in
  - recognising some assets and liabilities that the acquiree had not previously recognised as assets and liabilities in its financial statements.



The Acquisition Method

Example

- Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

- An operating lease in which the acquiree is the lessee is normally not recognised as assets or liabilities except for:
  - if the terms of an operating lease are favourable relative to market terms
    - ➢ the acquirer shall recognise an intangible asset
  - if the terms are unfavourable relative to market terms
    - ➢ the acquirer shall recognise a liability (HKFRS 3.B29)

- If the terms of an operating lease in which the acquiree is the lessor are either favourable or unfavourable when compared with market terms
  - The acquirer does not recognise a separate asset or liability(HKFRS 3.B42)

The Acquisition Method

Example

- Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

- An identifiable intangible asset may be associated with an operating lease, which may be evidenced by market participants' willingness to pay a price for the lease even if it is at market terms.
  - For example:
    - A lease of gates at an airport or of retail space in a prime shopping area might provide entry into a market or other future economic benefits that qualify as identifiable intangible assets, for example, as a customer relationship.
    - In that situation, the acquirer shall recognise the associated identifiable intangible asset(s) in accordance with HKFRS 3.B31.

The Acquisition Method

Example

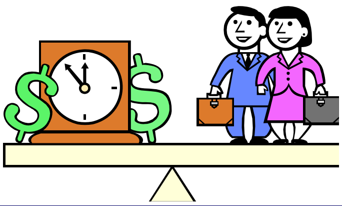
- Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

- For example, the acquirer recognises the acquired identifiable intangible assets, such as
  - a brand name,
  - a patent, or
  - a customer relationship,

  that the acquiree did not recognise as assets in its financial statements because it developed them internally and charged the related costs to expense.

The Acquisition Method

- Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree



- At the acquisition date, the acquirer shall
  - classify or designate the identifiable assets acquired and liabilities assumed as necessary to apply other HKFRSs subsequently.
- The acquirer shall make those classifications or designations on the basis of
  - the contractual terms, economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the acquisition date. (HKFRS 3.15)

The Acquisition Method

Example

- Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

- Examples of classifications or designations that the acquirer shall make on the basis of the pertinent conditions as they exist at the acquisition date include but are not limited to:
  a) classification of particular financial assets and liabilities as
     - as a financial asset or liability at fair value through profit or loss, or
     - as a financial asset available for sale or held to maturity,

     in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement*;
  b) designation of a derivative instrument as a hedging instrument in accordance with HKAS 39; and
  c) assessment of whether an embedded derivative should be separated from the host contract in accordance with HKAS 39 (which is a matter of 'classification' as this HKFRS uses that term).

The Acquisition Method

- Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

- HKFRS 3 provides two exceptions to the above classification or designation principle:
  a) classification of a lease contract as either an operating lease or a finance lease in accordance with HKAS 17 *Leases*; and
  b) classification of a contract as an insurance contract in accordance with HKFRS 4 *Insurance Contracts*.
- The acquirer shall classify those contracts on the basis of the contractual terms and other factors
  – at the inception of the contract, or
  – if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the acquisition date.

The Acquisition Method

- Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

- The acquirer shall measure the identifiable assets acquired and the liabilities assumed
  – at their acquisition-date fair values. (HKFRS 3.18)

Affect acquisition in stages

- For each business combination, the acquirer shall measure any non-controlling interest in the acquiree either
  – at fair value or

New alternative ("full goodwill method")

  – at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. (HKFRS 3.19)

Existing practice

The Acquisition Method

Example

Existing practice

	HK$
Fair value of identifiable net assets of Entity A	100
Purchase 75% interest in Entity A (consideration is $120)	120
Parent's interest – 75% of fair value of identifiable net assets ($100 × 75%)	75
Non-controlling interest ($100 × 25%) (at its proportionate share of Entity A's identifiable net assets)	25
Goodwill ($120 - $75)	45

The Acquisition Method

Example

Existing practice | **New alternative ("Full goodwill method")**

	HK$		HK$
Fair value of identifiable net assets of Entity A	100		
Purchase 75% interest in Entity A (consideration is $120)	120	Fair value of Entity A as a whole ($120 ÷ 75%)	160
Parent's interest – 75% of fair value of identifiable net assets ($100 × 75%)	75		
Non-controlling interest ($100 × 25%) (at its proportionate share of Entity A's identifiable net assets)	25	NCI ($160 × 25%) (at fair value)	40
Goodwill ($120 - $75)	45	Goodwill ($160 – $100)	60

The Acquisition Method

- Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

- Exception to the recognition principle of HKFRS 3:
  - Contingent liabilities:
    - Recognised as of the acquisition date if it is a present obligation that arises from past events and its fair value can be measured reliably
      - Even if it is not probable that an outflow of resources will be required.

The Acquisition Method

- Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

- Exception to the recognition and measurement principles of HKFRS 3
  1. Income taxes:
     - in accordance with HKAS 12 *Income Taxes*
  2. Employee benefits:
     - in accordance with HKAS 19 *Employee Benefits*
  3. Indemnification assets (say indemnified by the seller):
     - recognise an indemnification asset at the same time that it recognises the indemnified item measured on the same basis as the indemnified item,
       - subject to the need for a valuation allowance for uncollectible amounts.
         - » if the indemnification relates to an asset or a liability that is recognised at the acquisition date and measured at its acquisition-date fair value, the acquirer shall recognise the indemnification asset at the acquisition date measured at its acquisition-date fair value.

The Acquisition Method

Example

- Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

- The seller in a business combination may contractually indemnify the acquirer for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability.
- For example, the seller may indemnify the acquirer against losses above a specified amount on a liability arising from a particular contingency;
  - in other words, the seller will guarantee that the acquirer's liability will not exceed a specified amount.
- As a result, the acquirer obtains ***an indemnification asset***.

the indemnified item

The Acquisition Method

- Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

- Exception to the measurement principle of HKFRS 3
  1. Reacquired rights (i.e. grant other a right to use some assets):
     - measure the value of a reacquired right recognised as an intangible asset on the basis of the remaining contractual term of the related contract
       - regardless of whether market participants would consider potential contractual renewals in determining its fair value.
  2. Share-based payment awards
     - in accordance with HKFRS 2 *Share-based Payment*
  3. Assets held for sale:
     - in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

The Acquisition Method

- Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

- As a result of HKFRS 3, HKAS 38 *Intangible Assets* has also been amended.
- In particular, HKAS 38.33 has been added with:
  - If an asset acquired in a business combination
    - is separable or
    - arises from contractual or other legal rights,
      - ➢ sufficient information exists to measure reliably the fair value of the asset.
  - Thus, the reliable measurement criterion in HKAS 38.21(b) is always considered to be satisfied for intangible assets acquired in business combinations.

Fair value shall be used then!

The Acquisition Method

Critical Amendment

- Recognising and measuring goodwill or a gain from a bargain purchase

- The acquirer shall recognise goodwill as of the acquisition date measured as the excess of (a) over (b) below:
  a) the aggregate of:
     i) the consideration transferred measured in accordance with HKFRS 3, which generally requires acquisition-date fair value;
     ii) the amount of any non-controlling interest in the acquiree measured in accordance with HKFRS 3; and
     iii) in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.
  b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with HKFRS 3. (HKFRS 3.32)

Application of the method

If fair value is adopted, it will affect the amount of goodwill

Practices changed

The Acquisition Method

Example

Existing Methodology

	HK$
Fair value of identifiable net assets of Entity A	100
Purchase 75% interest in Entity A (consideration is $120)	120
Parent's interest – 75% of fair value of identifiable net assets ($100 × 75%)	75
Non-controlling interest ($100 × 25%) (at its proportionate share of Entity A's identifiable net assets)	
Goodwill ($120 - $75)	45

The Acquisition Method

Example

Existing Methodology | **New Methodology**

	Existing Methodology HK$	New Methodology HK$	
Fair value of identifiable net assets of Entity A	100	100	b
Purchase 75% interest in Entity A (consideration is $120)	120	120	a(i)
Parent's interest – 75% of fair value of identifiable net assets ($100 × 75%)	75		
Non-controlling interest ($100 × 25%) (at its proportionate share of Entity A's identifiable net assets)		25 145	a(ii)
Goodwill ($120 - $75)	45	45	

$(120 + 25) – $100
= $45

The Acquisition Method

Example

Existing Methodology	HK$	New Methodology HK$		HK$	
Fair value of identifiable net assets of Entity A	100	100		100	b
Purchase 75% interest in Entity A (consideration is $120)	120	120		120	a(i)
Parent's interest – 75% of fair value of identifiable net assets ($100 × 75%)	75		$120 ÷ 75% = $160		
Non-controlling interest ($100 × 25%) (at its proportionate share of Entity A's identifiable net assets)		25 145	$160×25%=	40 160	a(ii)
Goodwill ($120 - $75)	45	45		60	

$(120 + 40) – $100 = $60

The Acquisition Method

- Recognising and measuring goodwill or a gain from a bargain purchase

- When the goodwill becomes a negative figure
  - It is a bargain purchase.
- The acquirer shall recognise the resulting gain in profit or loss on the acquisition date
  - The gain shall be attributed to the acquirer.
- A bargain purchase might happen, for example, in a business combination that is a forced sale in which the seller is acting under compulsion.
- However, the recognition or measurement exceptions for particular items may also result in recognising a gain (or change the amount of a recognised gain) on a bargain purchase.

The Acquisition Method

- Recognising and measuring goodwill or a gain from a bargain purchase

- Before recognising a gain on a bargain purchase
  - the acquirer shall reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and shall recognise any additional assets or liabilities that are identified in that review.
  - the acquirer shall then review the procedures used to measure the amounts HKFRS 3 requires to be recognised at the acquisition date for all of the following:
    a) the identifiable assets acquired and liabilities assumed;
    b) the non-controlling interest in the acquiree, if any;
    c) for a business combination achieved in stages, the acquirer's previously held equity interest in the acquiree; and
    d) the consideration transferred.
  - The objective of the review is to ensure that the measurements appropriately reflect consideration of all available information as of the acquisition date.

The Acquisition Method

- Recognising and measuring goodwill or a gain from a bargain purchase

Consideration transferred

- The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of
  - the acquisition-date fair values of the assets transferred by the acquirer,
  - the liabilities incurred by the acquirer to former owners of the acquiree and
  - the equity interests issued by the acquirer.
- Examples of potential forms of consideration include
  - cash, other assets, a business or a subsidiary of the acquirer, contingent consideration, ordinary or preference equity instruments, options, warrants and member interests of mutual entities.

The Acquisition Method

- Recognising and measuring goodwill or a gain from a bargain purchase

Consideration transferred – Contingent Consideration

- If there is any contingent consideration arrangement, the acquirer shall recognise the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree.
  - The acquirer shall classify an obligation to pay contingent consideration ***as a liability or as equity*** on the basis of the definitions of an equity instrument and a financial liability in accordance with HKAS 32 or other applicable HKFRSs.
  - The acquirer shall classify ***as an asset*** a right to the return of previously transferred consideration if specified conditions are met.

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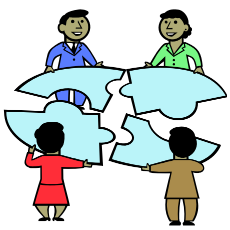
The Acquisition Method

- Additional guidance
  - Amended practices on business combination achieved in stages

- In a business combination achieved in stages (or step acquisition), the acquirer shall
  - remeasure its previously held equity interest in the acquiree **at its acquisition-date fair value** and
  - recognise the resulting gain or loss, if any, in profit or loss. (HKFRS 3.42)



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The Acquisition Method

- Additional guidance
  - Amended practices on business combination achieved in stages

- In prior reporting periods, the acquirer may have recognised changes in the value of its equity interest in the acquiree in other comprehensive income (for example, because the investment was classified as available for sale).
  - If so, the amount that was recognised in other comprehensive income shall be recognised on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest. (HKFRS 3.42)
  - In other words, "the amount recognised directly in other comprehensive income is reclassified and included in the calculation of the gain or loss recognised in profit or loss". (KPMG-UK, 2008.01)

The Acquisition Method

Example

On 1.1.2010	**Parent P**	**Sub S**
Property	$ 0	$ 6,000
Investment	0	0
Cash at bank	30,000	2,000
	30,000	8,000
Issued equity	$ (30,000)	$ (5,000)
Retained earnings	0	(3,000)
	(30,000)	(8,000)

On 1.1.2010
- Parent P acquired 20% interest in Subsidiary S at $3,500 by cash.
- Fair value of the property of S was $8,000.

During 2010
- Parent P reported nil profit and profit of S was HK$6,000 (became cash).
- Fair value of S is HK$30,000 at year-end.
- P accounted for S as held for trading.

On 1.1.2011
- P acquired additional 60% interest in S at $22,000 by cash.
- Fair value of the property of S was $11,000.

The Acquisition Method

You would miss this ……

Example

	1st Transaction 1.1.2010	2nd Transaction 1.1.2011	Total
Cost of combinations (or investments)	3,500	22,000	25,500
Fair value information			
Property, at fair value	8,000	11,000	
Cash	2,000	2,000	
Cash (profit for the year)	0	6,000	
	10,000	19,000	
Ownership interest	20%	60%	80%
Share of fair value	2,000	11,400	
Goodwill	1,500	10,600	12,100

The Acquisition Method

Example

On 1.1.2010	Parent P	Sub S
Property	$ 0	$ 6,000
Investment	0	0
Cash at bank	30,000	2,000
	30,000	8,000
Issued equity	$ (30,000)	$ (5,000)
Retained earnings	0	(3,000)
	(30,000)	(8,000)

On 1.1.2010

- Parent P acquired 20% interest in Subsidiary S at $3,500 by cash.
- Fair value of the property of S was $8,000.

During 2010

- Parent P reported nil profit and profit of S was HK$6,000 (became cash).
- Fair value of S is HK$30,000 at year-end.
- P accounted for S as held for trading.

On 1.1.2011

- P acquired additional 60% interest in S at $22,000 by cash.
- Fair value of the property of S was $11,000.

The Acquisition Method

Example

- Firstly, the acquirer (i.e. P) shall
  - remeasure its previously held equity interest in the acquiree (i.e. S) at its acquisition-date fair value and
  - recognise the resulting gain or loss, if any, in profit or loss.
- On 1.1.2011, P acquired additional 60% interest in S at $22,000 by cash
  - It implies that previously held equity interest of 20% (acquired on 1.1.2010) should have a fair value of $7,333 ($22,000 ÷ 60% × 20%)
  - The resulting gain should be recognised in profit or loss as follows:

		Dr($)	Cr($)
Dr	Investment ($7,333 – $6,000)	1,333	
Cr	Profit or loss		1,333

To remeasure the previously held 20% in S at acquisition-date fair value

The Acquisition Method

Example

The calculation approach would be revised as ……

		NCI at old approach New 1
a(i)	**Consideration transferred**	22,000
a(ii)	**Non-controlling interest (NCI)** ($19K x 20%)	3,800
a(iii)	**Acquisition-date fair value of the acquirer's previously held equity interest in the acquiree**	7,333
		33,133
b.	**Acquisition-date amount of net identifiable assets**	
	Property, at fair value	11,000
	Cash	2,000
	Cash (profit for the year)	6,000
		19,000
	Goodwill	14,133

The Acquisition Method

Example

Consolidation journals (for NCI at old approach):

		Dr($)	Cr($)
Dr	Property – fair value adjustment ($11,000 - $6,000)	5,000	
	Issued equity – subsidiary (given)	5,000	
	Retained earnings – subsidiary (given)	9,000	
	Goodwill (as calculated in last slide)	14,133	
Cr	Investment ($7,333 + $22,000)		29,333
	Non-controlling interest ($19,000 x 20%)		3,800

To recognise the goodwill and eliminate the investments with the equity shares

The Acquisition Method

Example

The calculation approach would be revised as ……

			NCI at old approach New 1		NCI at fair value New 2
a(i)	**Consideration transferred**		22,000		22,000
a(ii)	**Non-controlling interest (NCI)**	($19K x 20%)	3,800	($22K ÷ 60% x 20%)	7,333
a(iii)	**Acquisition-date fair value of the acquirer's previously held equity interest in the acquiree**		7,333		7,333
			33,133		36,666
b.	**Acquisition-date amount of net identifiable assets**				
	Property, at fair value		11,000		11,000
	Cash		2,000		2,000
	Cash (profit for the year)		6,000		6,000
			19,000		19,000
	Goodwill		14,133		17,666

The Acquisition Method

Example

Consolidation journals (for NCI at fair value):

		Dr($)	Cr($)
Dr	Property – fair value adjustment ($11,000 - $6,000)	5,000	
	Issued equity – subsidiary (given)	5,000	
	Retained earnings – subsidiary (given)	9,000	
	Goodwill (as calculated in last slide)	17,666	
Cr	Investment ($7,333 + $22,000)		29,333
	Non-controlling interest ($22,000 ÷ 60% x 20%)		7,333

To recognise the goodwill and eliminate the investments with the equity shares

The Acquisition Method

Example

On 1.1.2011	Parent P	Sub S	Old	New 1	New 2
Property	$ 0	$ 6,000	$ 11,000	$ 11,000	$ 11,000
Goodwill	0	0	12,100	14,133	17,666
Investment	28,000	0	0	0	0
Cash at bank	4,500	8,000	12,500	12,500	12,500
	32,500	14,000	35,600	37,633	41,166
Issued equity	$ (30,000)	$ (5,000)	$(30,000)	$(30,000)	$(30,000)
Retained earnings	(2,500)	(9,000)	(1,200)	(3,833)	(3,833)
Revaluation reserves	0	0	(600)	0	0
Non-controlling int.	0	0	(3,800)	(3,800)	(7,333)
	(32,500)	(14,000)	(35,600)	(37,633)	(41,166)

The Acquisition Method

- Measurement Period

Application of the method

- If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs,
  - the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete.
- During the measurement period,
  - the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date.

The Acquisition Method

- Measurement Period

- During the measurement period, the acquirer shall also recognise additional assets or liabilities
  - if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date.
- The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable.
- However, the measurement period shall not exceed one year from the acquisition date. (HKFRS 3.45)

The Acquisition Method

- Determining what is part of the business combination transaction

- The acquirer and the acquiree may have a pre-existing relationship or other arrangement before negotiations for the business combination began, or they may enter into an arrangement during the negotiations that is separate from the business combination.
- In either situation, the acquirer shall identify any amounts that are not part of what the acquirer and the acquiree (or its former owners) exchanged in the business combination, ie amounts that are not part of the exchange for the acquiree.
- The acquirer shall recognise as part of applying the acquisition method only the consideration transferred for the acquiree and the assets acquired and liabilities assumed in the exchange for the acquiree.
- Separate transactions shall be accounted for in accordance with the relevant HKFRSs. (HKFRS 3.51)

The Acquisition Method

- Acquisition-related costs

- Acquisition-related costs are costs the acquirer incurs to effect a business combination.
  - Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities.
- The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception.
- The costs to issue debt or equity securities shall be recognised in accordance with HKAS 32 and HKAS 39.

Subsequent Measurement and Acc.

Scope

Method of accounting

Application of the method

Subsequent Measurement

- In general, an acquirer shall subsequently measure and account for assets acquired, liabilities assumed or incurred and equity instruments issued in a business combination in accordance with other applicable HKFRSs for those items, depending on their nature.
- However, HKFRS 3 provides guidance on subsequently measuring and accounting for the following assets acquired, liabilities assumed or incurred and equity instruments issued in a business combination:
  a) reacquired rights;
  b) contingent liabilities recognised as of the acquisition date;
  c) indemnification assets; and
  d) contingent consideration. (HKFRS 3.54)

Subsequent Measurement and Acc.

a) Reacquired rights

– A reacquired right recognised as an intangible asset shall be amortised over the remaining contractual period of the contract in which the right was granted.

– An acquirer that subsequently sells a reacquired right to a third party shall include the carrying amount of the intangible asset in determining the gain or loss on the sale.

Subsequent Measurement

Subsequent Measurement and Acc.

Subsequent Measurement

b) Contingent liabilities recognised as of the acquisition date

– After initial recognition and until the liability is settled, cancelled or expires, the acquirer shall measure a contingent liability recognised in a business combination at the higher of:

a) the amount that would be recognised in accordance with HKAS 37; and

b) the amount initially recognised less, if appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

– This requirement does not apply to contracts accounted for in accordance with HKAS 39.

Subsequent Measurement and Acc.

Subsequent Measurement

c) Indemnification assets

– At the end of each subsequent reporting period, the acquirer shall measure an indemnification asset that was recognised at the acquisition date on the same basis as the indemnified liability or asset,

- subject to any contractual limitations on its amount and, for an indemnification asset that is not subsequently measured at its fair value, management's assessment of the collectibility of the indemnification asset.

– The acquirer shall derecognise the indemnification asset only when it collects the asset, sells it or otherwise loses the right to it.

Subsequent Measurement and Acc.

Subsequent Measurement

d) Contingent consideration

– Some changes in the fair value of contingent consideration that the acquirer recognises after the acquisition date may be the result of additional information that the acquirer obtained after that date about facts and circumstances that existed at the acquisition date.
  - Such changes are measurement period adjustments in accordance with HKFRS 3.45 –49.

– However, changes resulting from events after the acquisition date, such as meeting an earnings target, reaching a specified share price or reaching a milestone on a research and development project, are not measurement period adjustments.

Subsequent Measurement and Acc.

Subsequent Measurement

d) Contingent consideration

– The acquirer shall account for changes in the fair value of contingent consideration that are not measurement period adjustments as follows:

a) Contingent consideration classified as equity shall not be remeasured and its subsequent settlement shall be accounted for within equity.

b) Contingent consideration classified as an asset or a liability that:

i) is a financial instrument and is within the scope of HKAS 39 shall be measured at fair value, with any resulting gain or loss recognised either in profit or loss or in other comprehensive income in accordance with that HKFRS.

ii) is not within the scope of HKAS 39 shall be accounted for in accordance with HKAS 37 or other HKFRSs as appropriate.

Subsequent Measurement and Acc.

Example

- Examples of other HKFRSs that provide guidance on subsequently measuring and accounting for assets acquired and liabilities assumed or incurred in a business combination include:
  - **Goodwill**:
    - The acquirer measures goodwill at the amount recognised at the acquisition date less any accumulated impairment losses.
      - HKAS 36 *Impairment of Assets* prescribes the accounting for impairment losses.
  - **Intangible assets**:
    - HKAS 38 *Intangible Assets* prescribes the accounting for identifiable intangible assets acquired in a business combination.
  - **Insurance Contracts**:
    - HKFRS 4 *Insurance Contracts* provides guidance on the subsequent accounting for an insurance contract acquired in a business combination.

Subsequent Measurement and Acc.

Example

- Examples of other HKFRSs that provide guidance on subsequently measuring and accounting for assets acquired and liabilities assumed or incurred in a business combination include:
  - **Income Taxes**:
    - HKAS 12 *Income Taxes* prescribes the subsequent accounting for deferred tax assets (including unrecognised deferred tax assets) and liabilities acquired in a business combination.
  - **Share-based payment transactions**:
    - HKFRS 2 *Share-based Payment Transactions* provides guidance on subsequent measurement and accounting for the portion of replacement share-based payment awards issued by an acquirer that is attributable to employees' future services.
  - **Changes in controlling interests**:
    - HKAS 27 provides guidance on accounting for changes in a parent's ownership interest in a subsidiary after control is obtained

Effective Date and Transition

- HKFRS 3 shall be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.
- Earlier application is permitted.
  - However, HKFRS 3 shall be applied only at the beginning of an annual reporting period that begins on or after 30 June 2007.
  - If an entity applies this HKFRS before 1 July 2009, it shall disclose that fact and apply HKAS 27 (as amended in 2008) at the same time.
- Assets and liabilities that arose from business combinations whose acquisition dates preceded the application of HKFRS 3 shall not be adjusted upon application of HKFRS 3.

HKAS 27 and HKFRS 3 (Revised)

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HKAS 27 and HKFRS 3 (Revised)

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