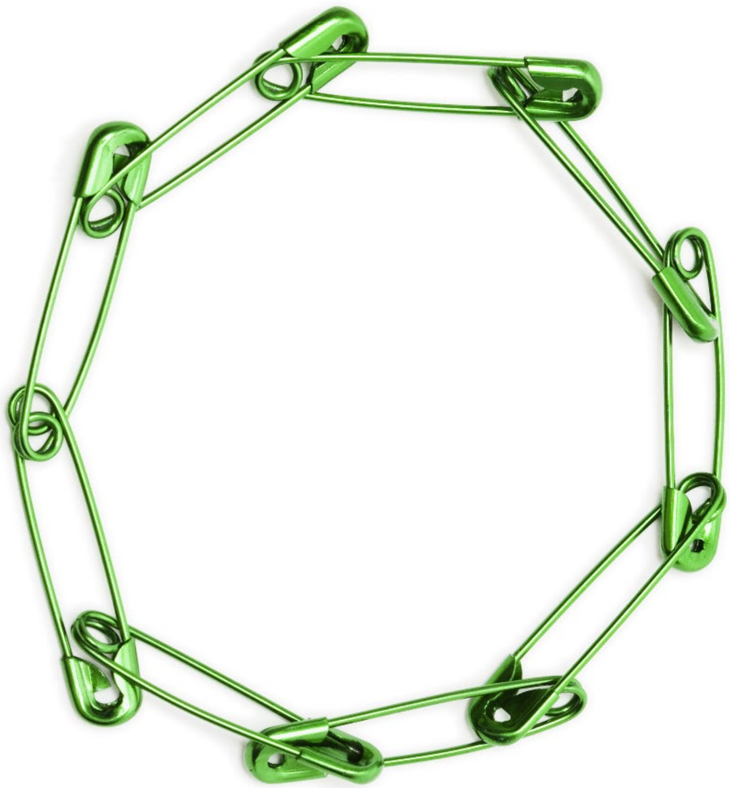

## ASPE Accounting Insights

# Improvements to Accounting for Common Control Combinations

### Amendments to Section 3840, Related Party Transactions and Section 3856, Financial Instruments

**Introduction**

The Accounting Standards Board ("AcSB") issued amendments to Section 3840, Related Party Transactions and Section 3856, Financial Instruments in September 2023. The amendments are relevant to entities applying the standards in Part II of the CPA Canada Handbook, Accounting Standards for Private Enterprises, and addresses certain application challenges encountered by entities applying the standards. More critically, the amendments reduce reporting burden for entities accounting for common control combinations, in particular, in cases where the combination has no commercial substance and is accounted for at carrying values (for example, an internal reorganization where the changes in ownership interest is not-substantive).

## What are the main features of the amendments

### Accounting for combinations under common control

Clarify the application of Section 1582, Business Combinations, to business combinations under common control accounted for in accordance with paragraph 3840.44(a); and

Reducing reporting burden by providing an option in paragraph 3840.44(b) to retrospectively restate all prior periods when carrying values are used to account for a combination or to prospectively account for these transactions.

### Accounting for financial instruments acquired in a combination under common control

Clarify that financial assets acquired, or financial liabilities assumed when a business is transferred between two entities under common control will be measured using the principles in paragraph 3840.44.

## What are the impacts of the amendments?

### The removal of the term exchange amount and reference to Section 1582

Currently, when a monetary related party transaction or a non-monetary related party transaction that has commercial substance is not in the normal course of operations, it shall be measured at the exchange amount when (a) the change in the ownership interests in the item transferred or the benefit of a service provided is substantive and (b) the exchange amount is supported by independent evidence. The amendment removes the term "exchange amount". The removal of the term "exchange amount" means that transactions that meet the requirements in paragraph 3840.44(a) will be accounted for in accordance with Section 1582. This mitigates the existing challenges in practice where the exchange amount does not approximate fair value and thus led to application diversity.

### Option to restate comparative information or to account for prospectively

This amendment removes the former requirement for entities to retrospectively restate all prior periods when using the carrying value to account for the combination. This amendment reduces the burden to restate prior year financial statements where the cost to restatement outweighs the benefits of year over year comparability.

Under the amended standards, when the combination does not have commercial substance or the change in ownership interest is not substantive, the changes to paragraph 3840.44(b) will give entities the choice to retrospectively restate all prior periods when carrying values are used or to account for the combination prospectively.

The choice of restatement or to account for the combination prospectively can be applied on a transaction-by-transaction basis. For each transaction, the financial statements of the combined enterprise shall present the earnings, assets and liabilities of the acquired enterprise in either of the following ways:

1. From the date that the transfer occurred; or
2. For the entire period in which the transfer occurred and for all prior periods.

### Accounting for financial instruments acquired in a combination under common control

Section 3856 has been amended to clarify the initial measurement of financial instruments acquired or liabilities assumed when a business is transferred between two enterprises under common control. More specifically, the amendment makes clear that financial assets acquired, or financial liabilities assumed in a combination under common control shall be measured using the principles in Section 3840.44.

## Effective date and transition

The amendments apply to annual periods beginning on or after January 1, 2025. Earlier application is permitted, including in financial statements not yet authorized for issue.

## Conclusion and next steps

The amendments provide an accounting policy choice which are expected to simplify accounting and presentation for common control combinations that are accounted for at carrying amounts. The amendments allow entities to provide the most relevant information to their financial statement users and may reduce their overall reporting burden. However, this could result in a loss of decision-useful information due to the loss in comparability.

Entities are encouraged to develop their adoption plans and work with their financial statement users to determine the most appropriate accounting and presentation approach for each common control combination on a transaction-by-transaction basis. Furthermore, entities should consider early adoption of the amendments if an entity has entered into a common control combination accounted for using carrying amounts and where financial statement users do not find benefit in restating prior year information.

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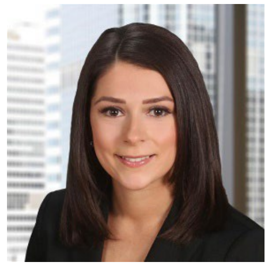

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