

statement of

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22

indonesian institute of accountants

accounting for business combinations

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compliance with the policies contained in this statement is not obligatory in the case of immaterial items.

jakarta, september 7, 1994

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introduction**objective**

the objective of this statement is to prescribe the accounting treatment for business combinations. this statement covers both an acquisition of one enterprise by another and also a uniting/pooling of interests when an acquirer cannot be identified. accounting for an acquisition involves the determination of the cost of the acquisition, allocation of the cost to the identifiable assets and liabilities of the enterprise being acquired, and accounting for the resulting goodwill at and after the time of acquisition. other accounting issues include the determination of the minority interest amount, accounting for a series of acquisitions which occur over a period of time, changes in the cost of acquisition or in the identification of assets and liabilities, and the disclosure required.

scope

01 this statement should be applied in accounting for business combinations.

02 a business combination may be structured in a variety of ways, which are determined for legal, taxation or other reasons. it may involve the purchase by an enterprise of the share of another enterprise or the purchase of the net assets of a business enterprise. it may be effected by the issue of shares or by the transfer of cash, cash equivalents or other assets. the transaction may be between the shareholders of the combining enterprises or between one enterprise and the shareholders of another enterprise. the business combination may involve the establishment of a new enterprise to have control over the combining enterprises, the transfer of the net assets of one or more of the combining enterprises to another enterprise or the dissolution of one or more of the combining enterprises. when the substance of the transaction is consistent with the definition of a business combination in this statement, the accounting treatment contained in this statement is appropriate irrespective of the legal structure adopted for the combination.

03 a business combination may result in a parent-subsidary relationship. in such circumstances, the parent applies this statement in its consolidated financial statements. its interest in the subsidiary is recorded as an investment in a subsidiary.

04 a business combination may involve the purchase of the net assets, including any goodwill, of another enterprise rather than the purchase of the shares in the other enterprise. such a business combination does not result in a parent-subsidary relationship. in such circumstances, the acquirer applies this statement in its separate financial statements and in its consolidated financial statements.

05 a business combination may give rise to a legal merger. a legal merger is usually a merger between two enterprises in which either:

- (a) the assets and liabilities of one enterprise are transferred to the other enterprise and the first enterprise is dissolved; or
- (b) the assets and liabilities of both enterprises (or more) are transferred to a new enterprise and both the original enterprises are dissolved.

many legal mergers arise as part of the restructuring or reorganization of a group. such transactions are beyond the scope of this statement because they are transactions among enterprises under common control.

06 this statement does not deal with the separate financial statements of a parent enterprise other than in the circumstances described in paragraph 4.

07 this statement does not deal with:

- (a) transactions among enterprises under common control; and
- (b) interests in jointly controlled operations and jointly controlled assets (as regulated in sfas no.12, financial reporting of interests in jointly controlled operations and assets).

definitions

08 the following terms are used in this statement are defined as follows:

a *business combination* is the combination of two or more separate enterprises into one economic entity as a result of one enterprise uniting with, or obtaining control over the net assets and operations of another enterprise.

an *acquisition* is a business combination in which one of the enterprises, the acquirer, obtains control over the net assets and operations of another enterprise, the acquiree, in exchange for the transfer of assets, incurrence of a liability or issuance of shares.

a *uniting of interests/pooling of interest* is a business combination in which the shareholders of two or more enterprises combine control over the whole, or effectively the whole, of their net assets and operations to achieve a continuing mutual sharing in the risks and benefits of the combined entity such that neither party can be identified as the acquirer.

control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

a *parent* is an enterprise that has one or more subsidiaries.

a *subsidiary* is an enterprise that is controlled by another enterprise (known as the parent).

minority interest is that part of the net results of operations and of net assets of a subsidiary which are not owned, directly or indirectly through subsidiaries, by the parent.

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.

date of acquisition is the date on which control of the net assets and operations of the acquiree is effectively transferred to the acquirer.

explanation

nature of business combination

09 in accounting for business combinations, an acquisition is, in substance, different from a uniting of interests and the substance of the transaction therefore needs to be reflected in the financial statements. accordingly, a different method is prescribed for each.

acquisition

10 in essence, in all business combinations, one of the combining enterprises obtains control over the another enterprise. control is presumed to be obtained when one of the combining enterprises acquires more than 50% the voting rights of another enterprise, unless it can be clearly demonstrated that such ownership does constitute control. even when one of the combining enterprises does not acquire more than 50% of the voting rights of another enterprise, it may still be possible to identify an acquirer when one of the combining enterprises acquires:

- (a) power over more than 50% of the voting rights of the other enterprise based on an agreement with other investors;
- (b) power to govern the financial and operating policies of the enterprise under a statute or an agreement;
- (a) power to appoint or remove the majority of the members of management of the other enterprise;
- (d) power to cast the majority of votes at meetings of the board of directors of the other enterprise.

11 although it may sometimes be difficult to identify an acquirer, there are usually indications that one exists. for example:

- (b) the fair value of one enterprise is significantly greater than that of the other combining enterprise. in such cases, the larger enterprise is the acquirer;
- (c) the business combination is effected through an exchange of voting common shares for cash. in such cases, the enterprise giving up cash is the acquirer; or
- (c) the business combination results in the management of one enterprise being able to dominate the selection of the management team of the resulting combined enterprise. in such cases the dominant enterprise is the acquirer.

reverse acquisition

12 occasionally an enterprise obtains ownership of the shares of another enterprise but, as part of the exchange transaction, issues enough voting shares as consideration such that control of the combined enterprise passes to the owners of the enterprise whose shares have been acquired. this situation is described as a reverse acquisition. although legally the enterprise issuing the shares may be regarded as the parent enterprise, the enterprise whose shareholders now control the combined enterprise is the acquirer because they enjoy the voting rights or other powers identified in paragraph 10. the enterprise issuing the shares is deemed to have been acquired by the other enterprise, the latter enterprise is deemed to be the acquirer and consequently should apply the purchase method to the assets and liabilities of the enterprise issuing the shares.

uniting of interests

13 in certain circumstances, it may be very difficult to identify an acquirer. instead of a dominant party emerging, the shareholders of the combining enterprises join in a substantially equal arrangement to share control over the whole (or effectively the whole) of their net assets and operations. in addition, the management of the combining enterprises participate in the management of the combined entity. as a result, the shareholders of the combining enterprises share mutually in the risks and benefits of the combined entity. such a business combination is accounted for as a uniting of interests.

14 a mutual sharing of risks and benefits is usually not possible without an equal exchange of voting common shares between the combining enterprises. such an exchange ensures that the relative ownership interests of the combining enterprise, and consequently their relative risks and benefits in the combined enterprise, are maintained and the decision-making powers of the parties are preserved. however, for a substantially equal share exchange to be effective in this regard, there cannot be a significant reduction in the rights attaching to the shares of one of the combining enterprises, otherwise the influence of that party is weakened.

- 15** in order to achieve a mutual sharing of the risks and benefits of the combined entity:
- (a) the substantial majority of the voting common shares of the combining enterprises are exchanged or pooled;
 - (d) the fair value of one enterprise is not significantly different from that of the other enterprise;
 - (c) the shareholders of each enterprise maintain substantially the same voting rights and interest in the combined entity, relative to each other, after the combination as before.
- 16** the mutual sharing of the risks and benefits of the combined entity diminishes and the likelihood that an acquirer can be identified increases when:
- (a) the relative equality in fair values of the combining enterprises is reduced and the percentage of voting common shares exchanged decreases;
 - (b) financial arrangements provide a relative advantage to one group of shareholders over the other shareholders. such arrangements may take effect either prior to or after the business combination; and
 - (c) one party's share of the equity in the combined entity depends on how the business performs subsequent to the business combination.

acquisition

accounting for acquisition

17 a business combination which is an acquisition should be accounted for by use of the purchase method of accounting as set out in the statement, paragraphs 19 through 56.

18 the use of the purchase method results in an acquisition of an enterprise being accounted for similarly to the purchase of other assets. this is appropriate since an acquisition involves a transaction in which assets are transferred, liabilities are incurred or capital is issued in exchange for control of the net assets and operations of another enterprise. the purchase method uses cost as the basis for recording the acquisition.

date of acquisition

19 as from the date of acquisition, an acquirer should:

- (a) include in the income statement the results of operations of the acquiree; and

- (b) recognize in the balance sheet the assets and liabilities of the acquiree and any goodwill arising from the acquisition.

20 the date of acquisition is the date on which control of the net assets and operations of the acquiree is effectively transferred to the acquirer and the date when application of the purchase method commences. the results of operations of an acquired business are included in the financial statements of the acquirer as from the date of acquisition. in substance, the date of acquisition is the date from when the acquirer has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. control is not deemed to have been transferred to the acquirer 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 finalized by law before control effectively passes to the acquirer. in assessing whether control has effectively been transferred, the substance of the acquisition needs to be considered.

cost of acquisition

21 an acquisition should be accounted for at its cost, being the amount of cash or cash equivalents paid, or the fair value, at the date of exchange, of the other consideration given by the acquirer in exchange for control over the net assets of the other enterprise, plus other costs directly attributable to the acquisition.

22 when an acquisition involves more than one exchange transaction, the cost of the acquisition is the aggregate cost of the individual transactions. when an acquisition is achieved in stages, the distinction between the date of acquisition and the date of the exchange transaction is very important. since accounting for the acquisition commences from the date of acquisition, it uses cost and fair value information determined as at the date of each exchange transaction.

23 monetary assets given, and liabilities incurred, are measured at their fair values at the date of the exchange transaction. when settlement of the purchase consideration is deferred, the cost of the acquisition is the present value of the consideration, taking into account any premium or discount likely to be incurred in settlement, and not the face value of the payable.

24 in determining the cost of the acquisition, marketable securities issued by the acquirer are measured at their fair value which is their market price at the date of the exchange transaction. when the market price on one particular date is not a reliable indicator, price movements for a reasonable period before and after the announcement of the terms of the acquisition need to be considered. when the market is unreliable, or no quotation exists, the fair value of the securities issued by the acquirer is estimated by reference to their proportional interest in the fair value of the acquirer or the fair value of the enterprise acquired, whichever is the more objectively determinable. purchase considerations paid in cash to shareholders of the acquiree as an alternative to securities may 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.

25 in addition to the purchase consideration, the acquirer may incur direct costs relating to the acquisition. these include the costs of registering and issuing equity securities and professional fees paid to accountants, legal advisers, appraisers and other consultants to effect the acquisition. general administrative costs, including the costs of maintaining an acquisitions department, and other costs which cannot be directly attributed to the particular acquisition being accounted for, are not included in the cost of the acquisition but are expensed as incurred.

recognition of identifiable assets and liabilities

26 assets and liabilities acquired should be recognized separately as at the date of acquisition when:

- (a) it is probable that any associated future economic benefits will flow to or from the acquirer; and
- (b) a reliable measure is available of their cost or fair value.

27 assets and liabilities acquired which meet the recognition criteria in paragraph 26 are described in this statement as identifiable assets and liabilities. to the extent that assets and liabilities are purchased which do not satisfy these recognition criteria, there is a resultant impact on the amount of goodwill arising on the acquisition. this is because goodwill is determined at the residual cost of acquisition after recognizing identifiable assets and liabilities.

28 the identifiable assets and liabilities over which the acquirer obtains control may include assets and liabilities which were not previously recognized in the financial statements of the acquiree. this may be because they did not qualify for recognition prior to the acquisition date.

29 assets and liabilities requiring recognition at the date of acquisition may also include those arising as a result of the acquisition. for instance, the acquirer, in making the acquisition, may have undertaken an obligation to compensate employees of the acquiree for services rendered prior to the acquisition. however, application of the recognition criteria does not permit the raising of a provision to cover future operating losses.

allocation of cost of acquisition

30 the assets and liabilities recognized in accordance with paragraph 26 should be measured as the aggregate of:

- (a) the fair value of the identifiable assets and liabilities acquired as at the date of the exchange transaction to the extent of the acquirer's interest obtained in the exchange transaction; and
- (b) the minority's proportion of the pre-acquisition carrying amounts of the assets and liabilities of the subsidiary.

any goodwill should be accounted for in accordance with this statement.

31 the cost of an acquisition is allocated to the assets and liabilities recognized in accordance with paragraph 26 by reference to their fair values at the date of the exchange transaction. however, the cost of the acquisition only relates to the percentage of the identifiable assets and liabilities purchased by the acquirer. consequently, when an acquirer purchases less than all the shares of the acquired enterprise, the resulting minority interest is stated at the minority's proportion of the pre-acquisition carrying amounts of the assets and liabilities of the subsidiary. this is because the minority's proportion has not been part of the exchange transaction to effect the acquisition.

successive share purchases

32 an acquisition may involve a series of exchange transactions, as when it is achieved in stages by successive purchases on a stock exchange. when this occurs, each significant transaction is treated separately for the purpose of determining the fair values of the identifiable assets and liabilities acquired and for determining the amount of goodwill on that transaction. this results in a step-by-step comparison of the cost of the individual purchases with the acquirer's percentage interest in the fair values of the identifiable assets and liabilities acquired at each step.

33 when an acquisition is achieved by successive purchases, the fair values of the identifiable assets and liabilities may vary at each exchange transaction. if all the identifiable assets and liabilities relating to an acquisition are restated to fair values at the time of each step, any adjustment relating to the previously held interest of the acquirer is a revaluation and is accounted for as such.

34 prior to qualifying as an acquisition, a transaction may qualify as an investment in an associate and be accounted for by use of the equity method in accordance with sfas no.15 on accounting for investments in associates. if so, the determination of fair values for the identifiable assets and liabilities acquired and the recognition of notional goodwill or negative goodwill is as of the date when the equity method is applied. if the investment did not qualify previously as an investment in an associate, the fair values of the identifiable assets and liabilities are determined as at the date of each step and goodwill is recognized at the date of acquisition.

determining the fair values of assets and liabilities acquired

35 the fair values of identifiable assets and liabilities acquired in an acquisition are determined by reference to their intended use by the acquirer. the intended use of an asset is usually the asset's existing use unless it is probable that the asset will be used for some other purposes. if an asset is intended to be used for another purpose, and is valued accordingly, related assets are valued on a consistent basis. when an asset or business segment of the acquiree is to be disposed of, this is taken into consideration in assigning fair values.

36 general guidelines for arriving at the fair values of assets and liabilities acquired are as follows:

- (a) marketable securities are valued at their current market values;
- (b) non-marketable securities are valued at estimated values that take into consideration features such as price earnings ratios, dividend yields and expected growth rates of comparable enterprises with similar characteristics;
- (c) receivable are valued 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. however, discounting is not required for short-term receivables when the difference between the face amount of the receivable and the discounted amount is not material;
- (d) inventories:
 - (i) finished goods and merchandise are valued at selling prices less: (a) the sum of the costs of disposal and (b) a reasonable profit allowance for the completing and selling effort based on profit for similar finished goods and merchandise;
 - (ii) work in process are valued at selling prices of finished goods less the sum of: (a) costs to complete, (b) costs of disposal and (c) a reasonable profit allowance for the completing and selling effort based on profit for similar finished goods;
 - (iii) raw materials are valued at current replacement costs;
- (e) land and buildings:
 - (i) to be used in their existing use, are valued at their market value for the existing use;
 - (ii) to be used in a different use, are valued at their market value for the expected use;
 - (iii) to be sold or held for later sale, rather than used, are valued at net realizable value;

- (f) plant and equipment:
 - (i) to be used, are valued at their market value determined by appraisal. when there is no evidence of market value because of the specialized nature of the plant and equipment, they are valued at their depreciated replacement cost;
 - (ii) to be used temporarily, are valued at the lower of current replacement cost for plant and equipment of similar capacity and net realizable value; and
 - (iii) to be sold or held for later sale, rather than used, at net realizable value;
- (g) intangible assets, such as patent rights and licenses, at estimated values;
- (e) net pension assets or obligations for defined benefit plans at the actuarial present value of promised retirement benefits less the fair value of plan assets.
- (i) tax assets and liabilities, at the amount in accordance with current tax regulations related to business combination.
- (j) accounts and notes payable, long-term debt, liabilities, accruals and other claims payable at present values of amounts to be disbursed in discharging the liability, discounted at appropriate current interest rates. however, discounting is not required for short-term liabilities when the difference between the face amount of the liability and the discounted amount is not material; and
- (k) obligations with regard to cancellation of unfavorable contracts, and plant closure expenses, incidental to the acquisition, at present values of amounts to be disbursed in discharging the obligation and discounted at appropriate current interest rates.

certain of the guidelines above assume that fair values will be determined by the use of discounting. when the guidelines do not to the use of discounting, discounting may or may not be used in determining the fair values of identifiable assets and liabilities

goodwill arising from acquisition

37 any excess in the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired as at the date of the exchange transaction should be described as goodwill and recognized as an asset.

38 goodwill arising from the acquisition represents a payment made by the acquirer in anticipation of future economic benefits. the future economic benefits may result from synergy between the identifiable assets acquired or from assets which do not qualify for recognition in the financial statements but for which the acquirer is prepared to make a payment in the acquisition.

39 goodwill should be amortized by recognizing it as an expense over its useful life. in amortizing goodwill, the straight-line basis should be used unless another amortization method is considered more appropriate in the circumstances. the amortization period should not exceed five years unless a longer period, not exceeding twenty years, can be justified.

40 goodwill diminishes with time, reflecting its reduced capacity to contribute to the future income of the enterprise. therefore, it is appropriate that goodwill is amortised and charged as an expense on a systematic basis over its useful life.

41 factors to be considered in estimating the useful life of goodwill include:

- (a) the estimated life of the business or industry;
- (b) the effects of product obsolescence, changes in demand and other economic factors;
- (c) the remaining service life expectancies of key individuals or groups of employees;
- (d) expected actions by competitors or potential competitors; and
- (e) legal, regulatory or contractual provisions affecting the useful life of goodwill.

42 because goodwill represents future economic benefits from synergy or assets for which separate recognition is not possible, it is frequently difficult to estimate its useful life. therefore, for accounting purposes, this statement specifies an arbitrary limit on the amortization period. the presumption in this statement is that goodwill does not normally have a useful life in excess of five years. however, there may be circumstances when the goodwill is clearly related to an identifiable asset that it is expected to provide benefit to the acquirer during the useful life of the asset. this may be the case, for example, when the principal identifiable asset in the acquisition is a broadcasting licence as an assets, any goodwill arising on the acquisition is amortized over the period of the broadcasting license. nevertheless, since an enterprise's planning horizon with respect to its operations as a whole is unlikely to exceed twenty years, projections as to the life of goodwill beyond this period are not sufficiently reliable to permit an amortization period of longer than twenty years.

43 when initially accounting for the acquisition, there may be circumstances in which goodwill on acquisition does not reflect future economic benefits that are expected to flow to the acquirer. this is the case when, there has been a decline in the expected future cash flows from the net identifiable assets being acquired since the negotiation of the purchase price. a discovery that an error in the accounts of the acquiree existed at the date of acquisition as the result of fraud is further example of when goodwill on acquisition may not reflect future economic benefits

44 the unamortized balance of goodwill should be reviewed at each balance sheet date and, if there is an indication that the amount cannot be fully recovered from the expected future economic benefits, then the unrecoverable amount should be recognized immediately as an expense. any write-down of goodwill should not be reversed in a subsequent period.

45 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. in these circumstances, the carrying amount of goodwill is written down and an expense is to be recognized.

negative goodwill arising from acquisition

46 when the cost of the acquisition is less than the acquirer's interest in the fair values of the identifiable assets and liabilities acquired as at the date of the exchange transaction, the fair values of the acquired non-monetary assets should be reduced proportionately until the excess is eliminated. when after reducing the fair values of non-monetary assets acquired, some excess still remains, the excess should be recognized as negative goodwill and treated as deferred revenue and recognised as revenue on a systematic basis over a period not less than twenty years.

47 when the acquirer's interest in the aggregate fair values of the acquired net assets exceeds the cost of the acquisition, the net assets have effectively been acquired at a discount. accordingly, the fair values of the non-monetary assets acquired are reduced by the discount to ensure that the acquisition is not recorded at more than its cost. the total discount, spread over those non-monetary assets, will be realized as income 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 realization process is completed as the inventory is sold. in the case of long-term assets, such as plant and equipment, the discount is realized through lower depreciation charges over the useful life of the assets.

adjustments to purchase consideration contingent on future events

48 when the acquisition agreement provides for an adjustment to the purchase consideration contingent on one or more future events, the amount of the adjustment should be included in determining the cost of the acquisition at the date of acquisition if the adjustment is probable and the amount can be measured reasonably at the date of acquisition.

49 acquisition agreements may allow for adjustments to be made to the purchase consideration in the light of one or more future events. the adjustments may be contingent on a specified level of earnings being achieved in the future, or on the stability of market price of the securities issued as part of the purchase consideration.

50 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. if the future events do not occur, or the estimate should be revised, the cost of the acquisition is adjusted with a consequential effect on goodwill or negative goodwill.

subsequent changes in cost of acquisition

51 the cost of the acquisition should be adjusted when a contingency affecting the amount of the purchase consideration is resolved subsequent to the date of the acquisition, so that payment of the amount is probable and a reasonable estimate of the amount can be made.

(f) the terms of an acquisition may provide for an adjustments of the purchase consideration if the results from the acquiree's operation after acquisition exceed or fall short of an agreed level. when the adjustment subsequently becomes probable, and a reliable estimate can be made of the amount, the acquirer treats the additional consideration as an adjustment to the cost of acquisition, with the consequent effect on goodwill or negative goodwill.

53 in some circumstances, the acquirer may be required to make subsequent payment to the seller as compensation for a reduction in the value of the purchase consideration. this may be the case when the acquirer has guaranteed the market price of securities or debt issued as consideration, and should further issue of securities or debt for the purpose of restoring the originally determined cost of acquisition as a result of the decrease in the market price. in such cases, there is no increase in the cost of acquisition and, consequently, no adjustment to goodwill or negative goodwill. instead, the increase in securities or debt represents a reduction in the premium or an increase in the discount on securities at the time of acquisition.

subsequent identification or changes in value of assets and liabilities

54 assets and liabilities, which are acquired but which do not satisfy the criteria in paragraph 26 for separate recognition when the acquisition was initially accounted for, should be recognized subsequently when they satisfy the criteria. the carrying amounts of assets and liabilities acquired should be adjusted when, subsequent to acquisition, additional evidence becomes available to assist with the estimation of the amounts assigned to those assets and liabilities at the time of acquisition. therefore, the amount of goodwill or negative goodwill should also be adjusted, provided that the amount of the adjustment is probable to be recovered from the expected future economic benefits and such adjustment is made by the end of the first annual accounting period commencing after acquisition; otherwise the adjustment arising after the period should be recognized as revenue or expense.

55 assets and liabilities of an acquiree may not have been recognized at the time of acquisition because they did not meet the recognition criteria for assets and liabilities, or the acquirer was unaware of their existence. similarly, the fair values assigned at the date of acquisition to assets and liabilities may need to be adjusted as additional evidence becomes available to assist with the estimation of the value of the asset or liability at the date of acquisition. when the assets or liabilities are recognized, or the carrying amounts are adjusted after the end of the first annual accounting period (excluding interim periods) commencing after acquisition, then the adjustment should be recognized as revenue or expense rather than an adjustment to goodwill or negative goodwill. this time limit, while arbitrary in length, prevents goodwill and negative goodwill from being reassessed and adjusted indefinitely.

56 when subsequent to acquisition but prior to the end of the first annual accounting period (excluding interim periods) commencing after acquisition, the acquirer becomes aware of the existence of a liability which had existed at the date of acquisition, goodwill is not increased without assessing whether additional future economic benefits can be expected. if additional future economic benefits cannot be expected, the amount adjusted is recognised as an expense.

uniting of interests

57 a uniting of interests should be accounted for by use of the pooling of interests method as set out in paragraphs 58, 59 and 62.

58 in applying the pooling of interests method, the financial statement items of the combining enterprises for the period in which combination occurs and for any comparative periods disclosed should be included in the financial statements of the combined enterprise as if they had been combined from the beginning of the period presented. the financial statements of an enterprise should not incorporate a uniting of interests to which the enterprise is a party, if the date of the uniting of interests falls after the date of the most recent balance sheet presented.

59 any difference between the amount recorded as share capital issued plus any additional consideration in the form of cash or other assets and the amount recorded for the share capital acquired, should be adjusted against equity.

60 the substance of a uniting of interests is that no acquisition has occurred and there has been a continuation of the mutual sharing of risks and benefits that existed prior to the business combination. use of the pooling of interests method recognized this by accounting for the combined enterprises as though the separate businesses were continuing as before though now jointly owned and managed. accordingly, only minimal changes are made in aggregating the individual financial statements.

61 since a uniting of interests results in a single combined entity, a single uniform set of accounting policies is adopted by that entity. therefore, the combined entity recognizes the assets, liabilities and equity of the combining enterprises at their existing carrying amounts adjusted only as a result of conforming the combining enterprises' accounting policies and applying those policies to all periods presented. in a pooling of interests there is no recognition of any goodwill or negative goodwill. similarly, the effects of all transactions between the combining enterprises, whether occurring before or after the uniting of interests, are eliminated in preparing the financial statements of the combined entity.

62 expenditures incurred in connection with a uniting of interests should be recognized as expenses in the period in which they are incurred.

63 expenditures incurred in relation to a uniting of interests include share registration and issuance fees, costs of furnishing information to shareholders, consultants fees, and salaries and other expenses related to services of employees involved in the business combination. they also include any costs or losses incurred in combining operations of the previously separate businesses.

disclosure

64 for all business combinations, the following disclosures should be made in the financial statements for the period during which the combination has taken place:

- (g) the names and descriptions of the combining enterprises;
- (b) the method of accounting for the combination;
- (h) the effective date of the combination for accounting purposes; and
- (d) any operations or discontinue as a result of the business combination which the enterprise has decided to dispose of.

65 for a business combination which is an acquisition, the following additional disclosures should be made in the financial statements for the period during which the acquisition has taken place:

- (a) the percentage of voting shares acquired;

- (b) the acquisition cost and a description of the purchase consideration paid or contingently payable; and
- (c) the nature and amount of provisions for restructuring and plant closure expenses arising as a result of the acquisition and recognized at the date of the acquisition.

66 the financial statements should disclose:

- (a) the accounting treatment for goodwill, including the period of amortization;
- (b) explanation of the reason and justification used when the useful life of goodwill exceeds five years;
- (c) when goodwill is not amortised on the straight-line basis, the basis used and reason why that basis is more appropriate than the straight-line basis;
- (d) a reconciliation, with respect to goodwill, at the beginning and end of the period showing:
 - (i) the gross amount and the accumulated amortization of goodwill at the beginning of the period;
 - (ii) any additional goodwill recorded during the period;
 - (iii) amortization charged during the period;
 - (iv) adjustments resulting from subsequent identification or changes in value of assets and liabilities after the date of acquisition;
 - (v) any goodwill write-offs during the period; and
 - (vi) the gross amount and the accumulated amortization of goodwill at the end of the period.

67 in an acquisition, if the fair values of the assets and liabilities of the purchase consideration can only be determined at the end of the period in which the acquisition took place, this should be stated and reasons given. where after the acquisition date there are subsequent adjustments to such estimated fair values, those adjustment should be disclosed and explained in the financial statements of the period concerned.

68 for a business combination which is a uniting of interests, the following additional disclosures should be made in the financial statements for the period during which the uniting of interests has taken place:

- (a) description and number of shares issued, together with the percentage of each enterprise's voting shares exchanged to effect the uniting of interests;
- (b) amounts of assets and liabilities contributed by each enterprise; and
- (c) sales revenue, other operating revenues, extraordinary items and the net profit or loss of each enterprise for the period prior to the combination that are included in the net profit or loss shown by the combined enterprise's financial statements.

69 the general disclosures required in consolidated financial statements are contained in sfas no. 4, consolidated financial statements.

70 for business combinations effected after the balance sheet date, the information required by paragraphs 64 to 68 should be disclosed. if it is impracticable to disclose any of this information, this fact should be disclosed

71 business combinations which have been effected after the balance sheet date and before the financial statements of one of the combining enterprises are formally issued are disclosed if they are of such importance that non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions (sfas no. 8, contingencies and events occurring after the balance sheet date).

72 in certain circumstances, the effect of the combination may allow the financial statements of the combined enterprise to be prepared in accordance with the going concern assumption. this might not have been possible for one or both of the combining enterprises. this may occur, for example, when an enterprise with cash flow difficulties combines with an enterprise having access to cash that can be used by the enterprise with the need for cash. if this is the case, disclosure of this information in the financial statements of the enterprise having the cash flow difficulties is relevant.

statement of financial accounting standard number 22

accounting for business combinations

statement of financial accounting standards no. 22 consists of paragraphs 73 - 97. this statement should be read in the context of paragraphs 1 - 72.

73 this statement should be applied in accounting for business combinations.

acquisition

74 a business combination which is an acquisition should be accounted for by use of the purchase method of accounting, as set out in paragraph 75-85.

75 as from the date of acquisition, an acquirer should:

- (a) include in the income statement the results of operations of the acquiree; and
- (b) recognize in the balance sheet the assets and liabilities of the acquiree and any goodwill arising from the acquisition.

76 an acquisition should be accounted for at its cost, being the amount of cash or cash equivalents paid, or the fair value, at the date of exchange, of the other consideration given by the acquirer in exchange for control over the net assets of the other enterprise, plus any costs directly attributable to the acquisition.

77 assets and liabilities acquired should be recognized separately as at the date of acquisition when:

- (a) it is probable that any associated future economics benefits will flow to or from the acquirer; and
- (b) a reliable measure is available for their cost or fair value.

78 the assets and liabilities recognized in accordance with paragraph 26 should be measured as the aggregate of:

- (i) the fair value of the identifiable assets and liabilities acquired as at the date of the exchange transaction to the extent of the acquirer's interest obtained in the exchange transaction; and
- (b) the minority's proportion of the pre-acquisition carrying amounts of the assets and liabilities of the subsidiary.

any goodwill should be accounted for in accordance with this statement.

79 any excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired as at the date of the exchange transaction should be described as goodwill and recognized as an asset.

80 goodwill should be amortized by recognizing it as an expense over its useful life. in amortizing goodwill, the straight-line basis should be used unless another amortization method is considered more appropriate in the circumstances. the amortization period should not exceed five years unless a longer period, not exceeding twenty years, can be justified.

81 the unamortized balance of goodwill should be reviewed at each balance sheet date and, if there is an indication that the amount cannot be fully or partially recovered from the expected future economic benefits, then the unrecoverable amount should be recognized immediately as an expense. any write-down of goodwill should not be reversed in a subsequent period.

82 when the cost of the acquisition is less than the acquirer's interest in the fair values of the identifiable assets and liabilities acquired as at the date of the exchange transaction, the fair values of the acquired non-monetary assets should be reduced proportionately until all the excess is eliminated. when after reducing the fair values of non-monetary assets acquired, some excess still remains, the excess should be recognized as negative goodwill and treated as deferred revenue and recognized as revenue on a systematic basis over a period not of less than twenty years.

83 when the acquisition agreement provides for an adjustment to the purchase consideration contingent on one or more future events, the amount of the adjustment should be included in the cost of the acquisition as at the date of acquisition if the adjustment is probable and the amount can be measured reasonably at the date of acquisition.

84 the cost of the acquisition should be adjusted when a contingency affecting the amount of the purchase consideration is resolved subsequent to the date of the acquisition, so that payment of the amount is probable and a reasonable estimate of the amount can be made.

85 assets and liabilities, which are acquired but which do not satisfy the criteria in paragraph 26 for separate recognition when the acquisition was initially accounted for, should be recognized subsequently when they satisfy the criteria. the carrying amounts of assets and liabilities acquired should be adjusted when, subsequent to acquisition, additional evidence becomes available to assist with the estimation of the amount assigned to those assets and liabilities at the time of acquisition. therefore, the amount of goodwill or negative goodwill should also be adjusted, provided that the amount of the adjustment is probable to be recovered from expected future economic benefits and such adjustment is made by the end of the first annual accounting period commencing after acquisition; otherwise the adjustment arising after the period should be recognized as revenue or expense.

uniting of interest

86 a uniting of interest should be accounted for by use of the pooling of interests method as set out in paragraph 87, 88, and 89.

87 in applying the pooling of interest method, the financial statement items of combining enterprises for the period in which the combination occurs and for any comparative periods disclosed, should be included in the financial statements of the combined enterprises as if they had been combined from the beginning of the period presented. the financial statements of an enterprise should not incorporate a uniting of interests to which the enterprise is a party if the date of the uniting of interests falls after the date of the most recent balance sheet presented.

88 any difference between the amount recorded as share capital issued plus any additional consideration in the form of cash or other assets and the amount recorded for the share capital acquired, should be adjusted against equity.

89 expenditures incurred in connection to a uniting of interests should be recognized as expenses in the period in which they are incurred.

disclosure

90 for all business combinations, the following disclosures should be made in the financial statements for the period during which the combination has taken place:

- (a) the names and descriptions of the combining enterprises;
- (b) the method of the accounting for the combination;
- (c) the effective date of the combination for accounting purposes; and
- (d) any operations or discontinue as a result of the business combination which the enterprise has decided to dispose of.

91 for a business combination which is an acquisition, the following additional disclosures should be made in the financial statements for the period during which the acquisition has taken place:

- (a) the percentage of voting shares acquired;
- (b) the acquisition cost and a description of the purchase consideration paid or contingently payable; and

- (c) the nature and amount of provisions for restructuring and plant closure expenses arising as a result of the acquisition and recognized at the acquisition date.

92 the financial statements should disclose:

- (a) the accounting treatment for goodwill, including the period of amortization;
- (b) explanation of the reason and justification used when the useful life of goodwill exceeds five years;
- (c) when goodwill is not amortized on the straight-line basis, the basis used and reason why that basis is more appropriate than straight-line basis;
- (d) a reconciliation, with respect to goodwill, at the beginning and end of the period showing:
 - (i) the gross amount and the accumulated amortization of goodwill at the beginning of the period;
 - (ii) any additional goodwill recorded during the period;
 - (iii) amortization charged during the period;
 - (iv) adjustments resulting from subsequent identification or changes in value of assets and liabilities after the date of acquisition;
 - (v) any goodwill write-offs during the period; and
 - (vi) the gross amount and the accumulated amortization of goodwill at the end of the period.

93 in an acquisition, if the fair value of the assets and liabilities or the purchase consideration can only be determined at the end of the period in which the acquisition took place, this should be stated and reasons given. when after the acquisition date there are adjustments to such estimated fair values, those adjustments should be disclosed and explained in the financial statements of the period concerned.

94 for a business combination which is a uniting of interests, the following additional disclosures should be made in the financial statements for the period during which the uniting of interests has taken place:

- (a) description and number of shares issued, together with the percentage of each enterprise's voting shares exchanged to effect the uniting of interests;

- (j) amounts of assets and liabilities contributed by each enterprise; and
- (k) sales revenue, other operating revenue, extraordinary items and the net profit or loss of each enterprise for the period prior to the combination that are included in the net profit or loss shown by the combined enterprise's financial statements.

95 for business combinations effected after the balance sheet date, disclosure as required by paragraphs 90-94 should be made. if the disclosure is impracticable, this fact should be disclosed.

transition

96 retrospective application of this statement is encouraged but not required. if the statement is applied retrospectively, the balance of any pre-existing goodwill (if any) should be properly determined and should be accounted for in accordance with this statement. the amortization period for goodwill should be the shorter than its useful remaining life as specified in the amortization policy and the amortization period specified in this statement.

effective date

97 this statement becomes effective for financial statements covering periods beginning on or after january 1, 1995. earlier application is highly recommended.